Supreme Court, U.S.
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IN THE

Supreme Court of the United States

TY INC.,

Petitioner,

v.

RUTH PERRYMAN,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether every third-party reseller of goods bearing famous trademarks has the right, as a matter of law, to incorporate the famous marks into the reseller's business name and Internet domain name, or whether such conduct instead constitutes "dilution" of the famous trademarks under the Federal Trademark Dilution Act.

RULE 29.6 STATEMENT

Petitioner Ty Inc. has no parent corporation and no publicly held company owns 10% or more of its stock.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner Ty Inc. respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Seventh Circuit in this case.

OPINIONS BELOW AND JURISDICTION

The opinion of the Seventh Circuit (Pet. App. 1a-12a) is reported at 306 F.3d 509. The opinions of the district court (*id.* 13a-57a) are unpublished. The court of appeals issued its judgment on October 4, 2002. Justice Stevens subsequently extended the time to file this petition for certiorari to and including January 31, 2003. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

RELEVANT STATUTORY PROVISIONS

The relevant provisions of the Federal Trademark Dilution Act (15 U.S.C. § 1125(c)) and of 15 U.S.C. § 1127 are reproduced in the Appendix at Pet. App. 58a-61a.

STATEMENT OF THE CASE

This case presents one of the most important and frequently recurring questions regarding the protection of trademark rights, including particularly the protection of those rights in cyberspace: may third parties incorporate famous trademarks into their own business names and Internet domain names without the trademark owner's permission? Until the Seventh Circuit's decision in this case, the federal courts uniformly held, in numerous decisions spanning more than four decades, that the federal trademark laws prohibit such unauthorized use, whether as part of a business name or, more recently, an Internet domain name. Those courts recognize that the owner of a trademark is unable to control the operations of a third party and thus cannot protect the public's positive association with the mark. The court of appeals in this case, however (per Posner, J.), adopted

precisely the opposite rule, holding that a reseller of a product has the *per se* legal right to use a famous trademark in its business name. The upshot of that ruling is that owners of famous marks now face the immediate prospect of the value of their marks being diluted, distorted, and undermined by *tens of thousands* of unrelated parties simply because these third parties sell or resell the trademark owner's products.

1. Petitioner Ty Inc. ("Ty" or "petitioner") owns the registered trademark "Beanie Babies®" and the common law trademark "Beanies™" in connection with its popular Beanie Babies plush toys. Pet. App. 27a. As the Seventh Circuit recognized, these marks "are famous trademarks in the ordinary sense of the term: 'everybody has heard of them'; they are 'truly prominent and renowned' . . . [and] are household words." Pet. App. 3a (quoting 4 *McCarthy on Trademarks and Unfair Competition* § 24:109, p. 24-234 (2001)). It is undisputed that the public has a positive association with petitioner's "Beanie Babies" and "Beanies" marks. Ty does not sell Beanie Babies toys on the secondary market. *Id.* 38a-39a.

Respondent Ruth Perryman ("Perryman" or "respondent") is a second-hand dealer in bean bag toys. She is not an authorized Ty retailer. Pet. App. 26a. In late 1997, respondent began doing business under the name "Bargain Beanies," and opened an Internet web site under the domain name "www.bargainbeanies.com." Pet. App. 26a-27a. Respondent sells plush toys over the Internet, and her "principal merchandise" (*i.e.*, 80% of her sales) is Ty's Beanie Babies toys (Pet. App. 7a, 10a), whereas plush toys not made by Ty account for 20% of her sales (*id.* at 10a, 27a-28a). In addition, respondent referred to non-Ty products as "Beanies" on her web site. *Id.* 55a.

Petitioner has no control over respondent's operations, or over the operations of thousands of other unauthorized resellers of Ty products. Petitioner cannot control the content of respondent's web site, whether the site is operating at all,

or whether she operates ethically or in a businesslike manner. Nor can petitioner control the materials that respondent sells on her site, all under the auspices of the famous "Beanies" mark.

In December of 1999, petitioner sued respondent under the Lanham Act, seeking to stop respondent's use of Ty's famous "Beanies" trademark as part of her business and domain names. Pet. App. 28a. Petitioner alleged, among other things, trademark dilution in violation of 15 U.S.C. § 1125(c) (the Federal Trademark Dilution Act, or "FTDA"). The FTDA makes unlawful any unauthorized use of a famous trademark that causes dilution of the distinctive quality of the mark. "Dilution" is the "lessening of the capacity of a famous mark to identify and distinguish goods or services," regardless of the presence or absence of competition between the parties or likelihood of confusion. 15 U.S.C. § 1127, Pet. App. 61a. The legislative history of Section 1125(c) explains how trademark dilution differs from trademark infringement:

> Dilution does not rely upon the standard test of infringement, that is, likelihood of confusion, deception or mistake. Rather, it applies when the unauthorized use of a famous mark *reduces the public's perception that the mark signifies something unique, singular, or particular*. As summarized in one decision: Dilution is an injury that differs materially from that arising out of the orthodox confusion. Even in the absence of confusion, the *potency of a mark may be debilitated by another's use. This is the essence of dilution*. Confusion leads to immediate injury, while dilution is an infection, which if allowed to spread, will inevitably destroy the advertising value of the mark.

H.R. Rep. No. 104-374 at 1030 (emphasis added). The Second Circuit summarized:

> The antidilution statutes rest on a judgment that the stimulant effect of a distinctive and well-known

> mark is a powerful selling tool that deserves legal protection. This power derives not only from the merit of the goods upon which [the mark] is used, but equally [from the mark's] own uniqueness and singularity. Even when an unauthorized use of the mark does not cause consumer confusion, it can reduce [] the public's perception that the mark signifies something unique, singular, or particular. The junior use thereby diminishes the selling power that a distinctive mark or name with favorable associations has engendered for a product in the mind of the consuming public.

Nabisco, Inc. v. *PF Brands, Inc.*, 191 F.3d 208, 217 (CA2 1999) (quotations and citations omitted).

2. On July 17, 2001, in response to Ty's motion for summary judgment, the district court held that respondent's use of Ty's famous "Beanies" mark in her business name and domain name diluted petitioner's trademark rights in violation of 15 U.S.C. § 1125(c). Pet. App. 54a-55a. After the parties compiled what the Seventh Circuit recognized was an "extensive record" (Pet. App. 11a), the district court found that petitioner satisfied each element of its trademark dilution claim, in that: Ty's "Beanie Babies" and "Beanies" marks were famous before respondent began using the "Beanies" mark in her name; respondent used the "Beanies" mark in commerce; and respondent's use of the term "Beanies" dilutes Ty's protectable marks. Pet. App. 53a-55a. In finding dilution, the district court observed that "[d]ilution occurs in cyberspace when defendant's use 'lessens the capacity of [plaintiff] to identify and distinguish its goods and services by means of the Internet.'" Pet. App. 54a (quoting *Trans Union LLC* v. *Credit Research, Inc.*, 142 F. Supp. 2d 1029, 1045 (N.D. Ill. 2001)). The court also noted that respondent's use of the term "beanies" on her www.bargainbeanies.com web site would cause Ty to become associated with "an unimaginable variety of products of varying quality

(including competing products)," and that respondent's reference to third-party toys as "beanies" "clearly lessens the capacity of the plaintiff to distinguish its goods from competitors." *Id.* 55a.

3. On respondent's appeal, the Seventh Circuit reversed. The court of appeals expressly agreed with the district court that Ty's "Beanie Babies" and "Beanies" marks are "famous trademarks" in that "everybody has heard of them" and they are "truly prominent and renowned." Pet. App. 3a. It nevertheless ruled, as a matter of law, that respondent's use of the marks in her business and domain names was not dilution.

The Seventh Circuit did not reason from the text of the FTDA or prior precedent in any respect, but rather relied upon its own view of the "purpose of trademark." Pet. App. 2a. Dilution occurs, the court asserted, only in classes of cases that necessarily give rise to, at most, three circumstances: (1) "blurring," *i.e.*, "if a trademark becomes associated with a variety of unrelated products"; (2) "tarnishment," *i.e.*, if a trademark is subject to a negative association (as with a Tiffany "striptease joint"); and potentially (3) "taking a free ride on the investment of the trademark owner in the trademark." *Id.* 4a-5a. Further, according to the appellate court, the FTDA may not be invoked in a manner that would "forbid commercial uses that accelerate the transition from trademarks (brand names) to generic names (product names)." *Id.* 8a. The court reasoned that, although there is a "social cost" when a mark becomes generic (in that the trademark owner's investment is lost and such investment is discouraged), there is also a "social benefit, namely an addition to ordinary language." *Id.* 9a.

On that basis, the Seventh Circuit held, as a matter of law, that a reseller of goods bearing a famous trademark may incorporate the famous mark into its business name without violating the Federal Trademark Dilution Act. Although respondent did sell more than just Beanie Babies, the court of appeals reasoned: "Supposing that Perryman sold *only*

Beanie Babies * * * we would find it impossible to understand how she could be thought to be blurring, tarnishing, or otherwise free riding to any significant extent on Ty's investment in its mark." Pet. App. 6a. One qualification the court added was that respondent may not specifically *label* toys other than Beanie Babies "other Beanies" on her web site, although she may name her entire business with petitioner's famous mark. *Id.* 10a-11a.

Petitioner's suit was only directed at respondent's use of petitioner's famous marks in her business and domain names. Petitioner did not seek to block respondent from advertising the products (*i.e.*, Beanie Babies) she had available for resale. Nevertheless, the court of appeals also reasoned that "[y]ou can't sell a branded product without using its brand name, that is, its trademark. * * * To say she was [engaging in trademark dilution] would amount to saying that if a used car dealer truthfully advertised that it sold Toyotas, or if a muffler manufacturer truthfully advertised that it specialized in making mufflers for installation in Toyotas, Toyota would have a claim of trademark infringement." *Id.* 6a-7a. *See also id.* 7a ("Perryman's principal merchandise is Beanie Babies, so that to forbid it to use 'Beanies' in its business name and advertising (Web or otherwise) is like forbidding a used car dealer who specializes in selling Chevrolets to mention the name in his advertising.").

The court of appeals accordingly concluded, as a matter of law, that petitioner could not make out a claim of trademark dilution. Pet. App. 11a. This petition for a writ of certiorari followed.

REASONS FOR GRANTING THE WRIT

Certiorari should be granted for two reasons. *First*, the Seventh Circuit's decision abrogates a heretofore uniform line of circuit and district court precedent holding that federal trademark law prohibits a third party's unauthorized use of a famous trademark in its name. The decision thus immediately

undercuts the basic purpose of the Federal Trademark Dilution Act by permitting unauthorized uses of famous marks in prominent and highly destructive ways.

Second, the question presented is vitally important. Virtually every owner of a famous mark constantly faces the prospect that third-party resellers of its goods will appropriate the mark. Importantly, given the inherently interstate (indeed, international) operation of the World Wide Web, such a marked disagreement in the rule of law applied by the territorially denominated courts of appeals is untenable and invites the appropriation of marks by opportunistic individuals seeking to take advantage of the Seventh Circuit's newly announced safe harbor from the reach of the FTDA. Further, the court of appeals' holding undermines the ability of U.S. trade negotiators to secure greater trademark protections overseas for U.S. businesses, which was a principal goal of the FTDA.

I. The Seventh Circuit's Decision Conflicts With Uniform Authority In Other Courts Of Appeals And District Courts.

1. The FTDA permits the "owner of a famous mark" to secure "an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark." 15 U.S.C. § 1125(c)(1). This case involves the element of "dilution," defined by the statute as "[t]he lessening of the capacity of a famous mark to identify and distinguish goods or services." *Id.* § 1127. The Seventh Circuit held as a matter of law that a reseller's use of a famous mark in its business name or Internet domain name cannot constitute trademark dilution. Pet. App. 6a-7a.

The Seventh Circuit's decision conflicts with the rulings of every other federal court to have considered this or a related question. These decisions stretch back through decades of federal trademark law. Even before enactment of

the FTDA, several courts of appeals held that the unauthorized incorporation of a well-known trademark in a third party's business name violated the Lanham Act's prohibition on trademark infringement, which imposes the heightened burden of proving that the parties are in competition and that the defendant's activities give rise to a "likelihood of confusion." *Compare* 15 U.S.C. § 1114 and 1125(a) *with* 15 U.S.C. § 1127 (eliminating those elements from the FTDA). Indeed, each of these cases arose in the context of automobile resellers, precisely the example that the Seventh Circuit used in its decision.

Thus, in *Volkswagenwerk Aktiengesellschaft* v. *Volks City, Inc.*, 348 F.2d 659 (CA3 1965), the Third Circuit upheld a preliminary injunction against a defendant who sold and serviced Volkswagens, precluding defendant from using the trade name "Volks City" and the designations "Volkswagen Dealer" and "Dealer in Volkswagens." The Fifth Circuit followed suit in *Trail Chevrolet, Inc.* v. *General Motors Corp.*, 381 F.2d 353, 354 (CA5 1967) upholding a permanent injunction precluding defendant, which sold and serviced used Chevrolet cars, from using the word "Chevrolet" in its business name. *Accord Volkswagenwerk Aktiengesellschaft* v. *Rickard*, 492 F.2d 474 (CA5 1974) (defendant could use plaintiff's trademarks to advertise that it serviced plaintiff's cars, but could not use plaintiff's marks as part of its business name, "The Bug Shop"). And in *Volkswagenwerk Aktiengesellschaft* v. *Church*, 411 F.2d 350, 351-52 (CA9 1969), the Ninth Circuit affirmed the lower court's ruling that defendant's use of the mark "Volkswagen" as part of its business name violated the trademark laws, although the defendant could advertise that it serviced Volkswagen and Porsche automobiles.[1]

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[1] Countless district courts have similarly ruled. *E.g.*, *Dr. Ing. H.C.F. Porsche AG* v. *Zim*, 481 F. Supp. 1247, 1250 (N.D. Tex. 1979) ("POR-SHA" for business that repairs Porsche cars);

The Seventh Circuit's ruling in this case is irreconcilable with these decisions. The Ninth Circuit recognized that permitting the defendant to use the plaintiff's mark in a business name would "suggest to his prospective customers that he is part of [the mark holder's] organization of franchised dealers and repairmen." *Church*, 411 F.2d at 352. The Fifth Circuit similarly recognized that such a practice would "mislead and deceive the public into accepting and purchasing used automobiles from [the defendant] in the belief that it (the public) was dealing with the [mark holder's] authorized dealers and that the defendants' business was sponsored or connected with, endorsed by or supervised by [the mark holder]." *Trail Chevrolet*, 381 F.2d at 354. As one district court put it, in terms that track the FTDA perfectly, the rule subsequently adopted by the Seventh Circuit "dilutes the distinctiveness of plaintiff's marks as the source or origin of products and services emanating from plaintiff or its authorized distributors and dealers." *Volkswagenwerk Aktiengesellschaft* v. *Karadizian*, 170 U.S.P.Q. 565, 567 (C.D. Cal. 1971).

Under the foregoing cases, liability under the FTDA, which imposes a substantially lesser standard and only applies

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Volkswagenwerk Aktiengesellschaft v. *Tatum*, 344 F. Supp. 235 (S.D. Fla. 1972) ("Volkswagen Service Center" for service station); *Volkswagenwerk Aktiengesellschaft* v. *Brewer*, 170 U.S.P.Q. 560 (D. Ariz. 1971) ("Volkscity Service Center" for business that fixed Volkswagen cars); *Volkswagenwerk Aktiengesellschaft* v. *Karadizian*, 170 U.S.P.Q. 565 (C.D. Cal. 1971) ("Volkswagen Village" for business that sold and repaired used Volkswagens); *Ford Motor Co.* v. *Weibel*, 262 F. Supp. 932 (D.R.I. 1967) ("Weibel Ford" for used car business); *General Motors Corp.* v. *Smith*, 138 U.S.P.Q. 382 (S.D. Cal. 1963) (car repair service named "Smith's Chevrolet Service"); *Volkswagenwerk G.m.b.H.* v. *Frank*, 198 F. Supp. 916 (D. Colo. 1961) ("Volkswagen" marks in defendant's retail car business name); *Lincoln Motor Co.* v. *Lincoln Automobile Co.*, 44 F.2d 812 (N.D. Ill. 1930) ("Lincoln Automobile Company" for business that sold used Lincoln cars).

to famous trademarks, follows *a fortiori*. "Even when an unauthorized use of the mark does not cause consumer confusion, it can reduce the public's perception that the mark signifies something unique, singular, or particular." *Nabisco*, 191 F.3d at 217. Thus, in *Panavision International, L.P.* v. *Toeppen*, 141 F.3d 1316 (CA9 1998), the defendant registered a domain name, "panavision.com," that incorporated plaintiff's famous mark. The Ninth Circuit upheld summary judgment in favor of the plaintiff under its FTDA claim, because the defendant's conduct "diminished 'the capacity of the Panavision marks to identify and distinguish Panavision's goods and services on the Internet.'" *Id.* at 1326 (quoting *Panavision International, L.P.* v. *Toeppen*, 945 F. Supp. 1296, 1304 (C.D. Cal. 1996), *aff'd* 141 F.3d 1316 (CA9 1998)). In finding dilution, the Ninth Circuit also observed that "Toeppen's use of panavision.com puts Panavision's name and reputation at his mercy." *Id.* at 1327 (citing *Intermatic Inc.* v. *Toeppen*, 947 F. Supp. 1227, 1240 (N.D. Ill. 1996)).

Similarly, in *PACCAR, Inc.* v. *TeleScan Techs., L.L.C.*, 115 F. Supp. 2d 772 (E.D. Mich. 2000) the defendant was preliminarily enjoined from using plaintiff's trademarks in domain names such as "peterbilttrucks.com" and "kenworthnewtrucks.com" even though the defendant's web sites assisted consumers in locating new and used Peterbilt and Kenworth trucks. The court found a likelihood of success on plaintiff's dilution claim and rejected defendant's argument that there was no dilution because the goods sold by the defendant ("TeleScan") were manufactured by plaintiff ("PACCAR"):

> TeleScan's argument misses the point. *The issue is the web site itself, not the trucks*. Here, there is sufficient evidence to believe that a consumer may mistakenly associate TeleScan's web sites with PACCAR's trademarks. Since PACCAR has no power to influence or control what appears on

> TeleScan's web sites, it is effectively "at the mercy" of TeleScan. Thus, TeleScan's use of PACCAR's trademarks in TeleScan's domain names is trademark dilution.

Id. at 780 (emphasis added).

Other courts have uniformly reached the same conclusion. *See, e.g.*, *General Motors Corp.* v. *E-Publications LLC*, 2001 WL 1798648, at *3 (E.D. Mich. Nov. 26, 2001) (permanent injunction against defendant who used the business names "Restore GM" and "Restore GM Muscle" and the Internet domain names "restoregm.com" and "restoregmmuscle.com" in connection with advertisement and sale of GM parts and services, because defendant's use of plaintiff's famous marks "dilutes the distinctive quality of the GM Marks"); *Porsche Cars North America, Inc.* v. *Manny's Porshop, Inc.*, 972 F. Supp. 1128, 1132 (N.D. Ill. 1997) (preliminary injunction on plaintiff's FTDA claim because defendant's use of the name MANNY'S PORSHOP for a Porsche repair shop "has the likely effect of diluting the name 'Porsche' and plaintiffs' unique script"); *Trans Union*, 142 F. Supp. 2d at 1029 (defendant preliminarily enjoined from using plaintiff's "Trans Union" mark in certain domain names for web sites that utilized Trans Union's database for credit reporting services); *Caterpillar Inc.* v. *Telescan Techs., L.L.C.*, 2002 U.S. Dist. LEXIS 3477 (C.D. Ill. Feb. 13, 2002) (defendant precluded from using plaintiff's famous "Caterpillar" and "Cat" marks as part of several domain names (such as "catusedequipment.com" and "caterpillardealers.com") where defendant intended to use the domain names to promote web site that contained a listing of the heavy equipment inventories of subscribing dealers).

2. The Seventh Circuit ignored the reasoning of the foregoing cases, concluding that such an interpretation would preclude a reseller or service company from advertising that it sold, or repaired, the brand-name products. That is simply wrong. The Fifth and Ninth Circuits expressly held that a

third party may use a trademark to advertise its goods or services, but it may not take the further step – forbidden by the trademark laws – of using the mark in its business name, thereby suggesting that the third party is associated with the mark holder. *Church*, 411 F.2d at 352; *Trail Chevrolet*, 381 F.2d at 354. The Seventh Circuit thus destroyed the distinction between a third party's right to advertise the goods it is selling (which is entirely permissible and consistent with the protection accorded a famous mark) with the very different asserted right to create a perceived affiliation of a *business* (through its name and its web-site name) with the holder of the protected mark. In other circuits, respondent is free to advertise that she sells Beanie Babies, but she manifestly may not create the impression in the public's mind that her business is affiliated with petitioner Ty, and further may not reduce the public's perception that the "Beanies" mark signifies something unique or singular.[2]

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[2] It is well-settled that unauthorized use of trademarks as domain names gives rise to a claim of trademark dilution. In fact, the FTDA was meant to address unauthorized trademark uses in domain names: "it is my hope that this anti-dilution statute can help stem the use of deceptive Internet addresses taken by those who are choosing marks that are associated with the products and reputations of others." Federal Trademark Dilution Act of 1995: Hearings on H.R. 1295 Before the Senate, 104th Cong. 19312 (1995) (Statement of Senator Leahy). *See generally Victoria's Secret Stores* v. *Artco Equip. Co., Inc.*, 194 F. Supp. 2d 704, 732 (S.D. Ohio 2002) ("The Court sees no difference between using plaintiffs' mark on the sign attached to a bricks and mortar sex toy store and using plaintiffs' mark on cybersigns—such as domain name, hyperlinks, and metatags— attached to a online sex toy store."); *see also Ford Motor Co.* v. *Ford Fin. Solutions, Inc.*, 103 F. Supp. 2d 1126, 1128 (N.D. Iowa 2000) ("Domain names identify the Internet site to those who reach it 'much like a person's name identifies a particular person, or, more relevant to trademark disputes, a company's name identifies a specific company.'" (quoting *Green Prods. Co.* v. *Independence Corn By-Products Co.*,

The Seventh Circuit was both incorrect and in conflict with its sister circuits when it concluded that, because respondent resells goods manufactured by petitioner, petitioner could not be harmed by respondent's use of a business name that so directly suggests an association with petitioner. Respondent's use of petitioner's mark as the centerpiece of its domain name, along with similar uses by many *thousands* of other businesses that are now allowed

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992 F. Supp. 1070, 1076 (N.D. Iowa 1997); *PACCAR*, 115 F. Supp. 2d at 779 ("Due to the nature of the Internet, and the way in which Internet surfers search for information on the Web, a domain name is significantly different than a classified advertisement. The use of the name of a truck in a classified advertisement communicates information as to the source of the truck, not information as to the seller of the truck. Words in domain names, however, do communicate information as to the nature of the entity sponsoring the web site." (citing *Brookfield Communs., Inc.* v. *West Coast Entm't Corp.*, 174 F.3d 1036, 1055 (CA9 1999))); *Intermatic*, 947 F. Supp. at 1238 (defendant's registration of the domain name "intermatic.com" was trademark dilution under the FTDA: "The definition is designed to encompass all forms of dilution recognized by the courts, including dilution by blurring, by tarnishment and disparagement, and by diminishment." (quoting H.R. Rep. No. 104-374, at 1035)); *Playboy Enters., Inc.* v. *Asiafocus Intern., Inc.*, 1998 WL 724000, at *8 (E.D. Va. Apr. 10, 1998) (unreported) (defendant's use of plaintiff's trademarks in domain name was trademark dilution: "It is clear that the capacity of PEI to identify its goods and services was diminished by the defendants' use of the terms to promote not only their Web site, but the goods and services offered in connection therewith."); *TeleTech Customer Care Management, Inc.* v. *Tele-Tech Co.*, 977 F. Supp. 1407 (C.D. Cal. 1997) (defendant enjoined, under FTDA, from using plaintiff's mark in its domain name); *People for the Ethical Treatment of Animals, Inc.* v. *Doughney*, 113 F. Supp. 2d 915, 920 (E.D. Va. 2000) (defendant's use of plaintiff's mark in domain name was dilution by blurring, because he used plaintiff's famous mark to mentally associate his website (peta.org) to the PETA mark), *aff'd*, 263 F.3d 359 (CA4 2001)).

under the Seventh Circuit's decision, inevitably and falsely communicates that petitioner is associated with, or has authorized, those businesses. And more to the point, such unrestricted and widespread uses of petitioner's famous mark in the business names of third parties will most assuredly reduce the public's perception that the famous mark signifies something unique, singular or particular. Under the decision below, the famous "Beanies" mark will be identified not only with Ty Inc. of Oakbrook, Illinois, but also with Ruth Perryman's business in Vallejo, California, and with every other business that will now be permitted to use Ty's famous mark in its business name.

The use of a famous mark in a business name creates a substantial prospect of dilution by blurring and tarnishment. Respondent's business name blurs petitioner's mark because the public will now think of respondent's business and her web site when they see Ty's famous mark. This is a classic instance of dilution, which occurs when the public "begins associating both the plaintiff and the defendant with the famous marks." *Times Mirror Magazines, Inc.* v. *Las Vegas Sports News, L.L.C.*, 212 F.3d 157, 168 (CA3 2000). The Seventh Circuit's decision furthermore creates an obvious and palpable risk of tarnishment because petitioner has no ability to control the business practices of respondent or any other entity that chooses to employ petitioner's marks. In an era in which Internet businesses quickly flare up and collapse, there is a very real prospect that Ty's marks will become associated with individuals and entities engaging in unethical or incompetent business practices. *Accord V. Secret Catalogue, Inc.* v. *Moseley*, 259 F.3d 464, 477 (CA6 2001), *cert. granted*, 122 S. Ct. 1536 (2002).

The Seventh Circuit's decision thus undermines the very heart of the FTDA. The statute is designed to protect "the public's perception that the mark signifies something unique, singular, or particular." H.R. Rep. No. 104-374. Congress accordingly recognized that "the potency of a mark may be

debilitated by another's use. *This is the essence of dilution.*" *Id.* (emphasis added).

The Seventh Circuit's focus on what it perceived to be the purpose of the FTDA (Pet. App. 2a) also reflects a broader disagreement in the federal courts over the statute's scope. The court of appeals held that petitioner could not invoke the FTDA in a manner that would preclude "commercial uses that accelerate the transition from trademarks (brand names) to generic names (product names)." *Id.* 8a. The Fourth Circuit similarly holds that the statute protects a trademark's "selling power, *not* its 'distinctiveness' as such." *Ringling Bros.-Barnum & Bailey Comb. Shows, Inc.* v. *Utah Div. Travel Dev.*, 170 F.3d 449, 458 (CA4 1999) (emphasis added).

By contrast, the Second Circuit holds that the FTDA protects against "lessening the distinctiveness of the senior mark." *Federal Express Corp.* v. *Federal Espresso, Inc.*, 201 F.3d 168, 176 (CA2 2000). In that court's view, "distinctiveness of the mark is the quality that the statute endeavors to protect." *Nabisco*, 198 F.3d at 217. That holding is consistent with the accepted understanding that the negative "end result" of dilution "may be the transformation of a distinctive trademark into a generic term, or its transformation into the kind of weak or even totally nondistinctive mark that has, at best, a narrow product scope of protection." 3A L. Altman, *Callmann on Unfair Comp., Trademarks and Monopolies* § 21.11 (4th ed. 1999). The Second Circuit thus would hold that petitioner may invoke the FTDA in order to protect the distinctive quality of its marks and thus to prevent those marks from becoming "generic."[3]

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[3] This disagreement is related to the question presented in No. 01-1015, *Moseley* v. *V. Secret Catalogue, Inc.* That case presents the circuit split over whether a plaintiff seeking an injunction under the FTDA must establish present dilution or whether a showing of a likelihood of future dilution is sufficient. The Fourth Circuit in *Ringling Brothers*, *supra*, equated present

II. The Question Presented Is Vitally Important.

The Seventh Circuit's decision invites an onslaught of misappropriation of marks protected by the Federal Trademark Dilution Act. According to the decision below, *any* business that resells or services the products of a holder of a famous mark may use that mark in the name of its business or of its Internet web site. Respondent's "Bargain Beanies" is obviously just the beginning, for there could be innumerable other iterations of the "Beanies" and "Beanie Babies" marks. And the decision below furthermore applies fully to every other famous mark, as demonstrated by the Seventh Circuit's pointed reference to the marks of the major automobile manufacturers, which until the decision below, had been protected by the federal trademark laws. It is difficult to imagine a famous mark that is not directly implicated by the Seventh Circuit's ruling.

Because the decision below cannot be reconciled with decisions of other circuits, it produces an unacceptably uncertain legal regime. In particular, this case directly raises the rights of the holders of famous marks vis-à-vis Internet web-site owners. The inherently interstate – indeed, international – nature of the World Wide Web makes it essential to have a uniform and definite rule of law regarding the respective rights of web-site owners and of trademark holders.

By substantially reducing the protections afforded famous marks, the Seventh Circuit's decision also has the effect of undermining the ability of U.S. trade negotiators to secure greater trademark protections for U.S. businesses from foreign governments. Among Congress's principal purposes in enacting the FTDA was to "assist the executive branch in its bilateral and multilateral negotiations with other countries

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dilution with harm to the mark's "selling power," while the Second Circuit in *Nabisco* equated harm to "distinctiveness of the mark" with likelihood of dilution.

to secure greater protection for the famous marks owned by U.S. companies. Foreign countries are reluctant to change their laws to protect famous U.S. marks if the U.S. itself does not afford special protection for such marks." H.R. Rep. No. 104-374, at 1031. *Accord* Federal Trademark Dilution Act of 1995: Hearings on H.R. 1295 Before the House, 104th Cong. 14318 (1995) (Statement of Rep. Schroeder, member of Subcommittee on Courts and Intellectual Property). The Seventh Circuit, however, has directly undercut the effectiveness of the FTDA in an important, highly visible, and recurring respect that implicates the rights of foreign owners of marks protected in the United States. Congress's goal of encouraging the reciprocal enhancement of the protections provided to famous marks overseas will be impeded as a result.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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APPENDIX

APPENDIX A — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT DECIDED OCTOBER 4, 2002

In the
United States Court of Appeals
For the Seventh Circuit

No. 02-1771

TY INC.,

Plaintiff-Appellee,

v.

RUTH PERRYMAN,

Defendant-Appellant.

Appeal from the United States District Court
for the Northern District of Illinois, Eastern Division.
No. 99 C 8190—**John F. Grady,** *Judge.*

ARGUED SEPTEMBER 11, 2002—DECIDED OCTOBER 4, 2002

Before POSNER, EASTERBROOK, and EVANS, *Circuit Judges.*

POSNER, *Circuit Judge.* Ty Inc., the manufacturer of Beanie Babies, the well-known beanbag stuffed animals, brought this suit for trademark infringement against Ruth Perryman. Perryman sells second-hand beanbag stuffed animals, primarily but not exclusively Ty's Beanie Babies, over the Internet. Her Internet address ("domain name"), a particular focus of Ty's concern, is bargainbeanies.com. She has a

like-named Web site (http://www.bargainbeanies.com) where she advertises her wares. Ty's suit is based on the federal antidilution statute, 15 U.S.C. § 1125(c), which protects "famous" marks from commercial uses that cause "dilution of the distinctive quality of the mark." See *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 214-16 (2d Cir. 1999). The district court granted summary judgment in favor of Ty and entered an injunction that forbids the defendant to use "BEANIE or BEANIES or any colorable imitation thereof (whether alone or in connection with other terms) within any business name, Internet domain name, or trademark, or in connection with any non-Ty products." Perryman's appeal argues primarily that "beanies" has become a generic term for beanbag stuffed animals and therefore cannot be appropriated as a trademark at all, and that in any event the injunction (which has remained in effect during the appeal) is overbroad.

The fundamental purpose of a trademark is to reduce consumer search costs by providing a concise and unequivocal identifier of the particular source of particular goods. The consumer who knows at a glance whose brand he is being asked to buy knows whom to hold responsible if the brand disappoints and whose product to buy in the future if the brand pleases. This in turn gives producers an incentive to maintain high and uniform quality, since otherwise the investment in their trademark may be lost as customers turn away in disappointment from the brand. A successful brand, however, creates an incentive in unsuccessful competitors to pass off their inferior brand as the successful brand by adopting a confusingly similar trademark, in effect appropriating the goodwill created by the producer of the

successful brand. The traditional and still central concern of trademark law is to provide remedies against this practice.

Confusion is not a factor here, however, with a minor exception discussed at the end of the opinion. Perryman is not a competing producer of beanbag stuffed animals, and her Web site clearly disclaims any affiliation with Ty. But that does not get her off the hook. The reason is that state and now federal law also provides a remedy against the "dilution" of a trademark, though as noted at the outset of this opinion the federal statute is limited to the subset of "famous" trademarks and to dilutions of them caused by commercial uses that take place in interstate or foreign commerce. "Beanie Babies," and "Beanies" as the shortened form, are famous trademarks in the ordinary sense of the term: "everybody has heard of them"; they are "truly prominent and renowned," in the words of Professor McCarthy, 4 *McCarthy on Trademarks and Unfair Competition* § 24:109, p. 24-234 (2001), as distinguished from having a merely local celebrity. *TCPIP Holding Co. v. Haar Communications Inc.*, 244 F.3d 88, 98-99 (2d Cir. 2001). And while both this court and the Third Circuit have held, in opposition to the Second Circuit's *TCPIP* decision, that "fame," though it cannot be local, may be limited to "niche" markets, *Syndicate Sales, Inc. v. Hampshire Paper Corp.*, 192 F.3d 633, 640-41 (7th Cir. 1999); *Times Mirror Magazines, Inc. v. Las Vegas Sports News, L.L.C.*, 212 F.3d 157, 164 (3d Cir. 2000), this is not a conflict to worry over here; Ty's trademarks are household words. And Perryman's use of these words was commercial in nature and took place in interstate commerce, and doubtless, given the reach of the aptly named World Wide Web, in foreign commerce as well.

But what is "dilution"? There are (at least) three possibilities relevant to this case, each defined by a different underlying concern. First, there is concern that consumer search costs will rise if a trademark becomes associated with a variety of unrelated products. Suppose an upscale restaurant calls itself "Tiffany." There is little danger that the consuming public will think it's dealing with a branch of the Tiffany jewelry store if it patronizes this restaurant. But when consumers next see the name "Tiffany" they may think about both the restaurant and the jewelry store, and if so the efficacy of the name as an identifier of the store will be diminished. Consumers will have to think harder—incur as it were a higher imagination cost—to recognize the name as the name of the store. *Exxon Corp. v. Exxene Corp.*, 696 F.2d 544, 549-50 (7th Cir. 1982); cf. *Mead Data Central, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1031 (2d Cir. 1989) ("The [legislative] history [of New York's antidilution statute] disclosed a need for legislation to prevent such 'hypothetical anomalies' as 'Dupont shoes, Buick aspirin tablets, Schlitz varnish, Kodak pianos, Bulova gowns' "); 4 *McCarthy on Trademarks and Unfair Competition, supra*, § 24:68, pp. 24-120 to 24-121. So "blurring" is one form of dilution.

Now suppose that the "restaurant" that adopts the name "Tiffany" is actually a striptease joint. Again, and indeed even more certainly than in the previous case, consumers will not think the striptease joint under common ownership with the jewelry store. But because of the inveterate tendency of the human mind to proceed by association, every time they think of the word "Tiffany" their image of the fancy jewelry store will be tarnished by the association of the word with the strip

joint. *Hormel Foods Corp. v. Jim Henson Productions, Inc.*, 73 F.3d 497, 507 (2d Cir. 1996); 4 *McCarthy on Trademarks and Unfair Competition, supra*, § 24:95, pp. 24-195, 24-198. So "tarnishment" is a second form of dilution. Analytically it is a subset of blurring, since it reduces the distinctness of the trademark as a signifier of the trademarked product or service.

Third, and most far-reaching in its implications for the scope of the concept of dilution, there is a possible concern with situations in which, though there is neither blurring nor tarnishment, someone is still taking a free ride on the investment of the trademark owner in the trademark. Suppose the "Tiffany" restaurant in our first hypothetical example is located in Kuala Lumpur and though the people who patronize it (it is upscale) have heard of the Tiffany jewelry store, none of them is ever going to buy anything there, so that the efficacy of the trademark as an identifier will not be impaired. If appropriation of Tiffany's aura is nevertheless forbidden by an expansive concept of dilution, the benefits of the jewelry store's investment in creating a famous name will be, as economists say, "internalized"—that is, Tiffany will realize the full benefits of the investment rather than sharing those benefits with others—and as a result the amount of investing in creating a prestigious name will rise.

This rationale for antidilution law has not yet been articulated in or even implied by the case law, although a few cases suggest that the concept of dilution is not exhausted by blurring and tarnishment, see *Panavision Int'l, L.P. v. Toeppen*, 141 F.3d 1316, 1326 (9th Cir. 1998); *Intermatic*,

Inc. v. Toeppen, 947 F. Supp. 1227, 1238-39 (N.D. Ill. 1996); *Rhee Bros., Inc. v. Han Ah Reum Corp.*, 178 F. Supp. 2d 525, 530 (D. Md. 2001), and the common law doctrine of "misappropriation" might conceivably be invoked in support of the rationale that we have sketched. See Rochelle Cooper Dreyfuss & Roberta Rosenthal Kwall, *Intellectual Property: Cases and Materials on Trademark, Copyright and Patent Law* 137-38 (1996). The validity of the rationale may be doubted, however. The number of prestigious names is so vast (and, as important, would be even if there were no anti-dilution laws) that it is unlikely that the owner of a prestigious trademark could obtain substantial license fees if commercial use of the mark without his consent were forbidden despite the absence of consumer confusion, blurring, or tarnishment. Competition would drive the fee to zero since, if the name is being used in an unrelated market, virtually every prestigious name will be a substitute for every other in that market.

None of the rationales we have canvassed supports Ty's position in this case. Perryman is not producing a product, or a service, such as dining at a restaurant, that is distinct from any specific product; rather, she is selling the very product to which the trademark sought to be defended against her "infringement" is attached. You can't sell a branded product without using its brand name, that is, its trademark. Supposing that Perryman sold *only* Beanie Babies (a potentially relevant qualification, as we'll see), we would find it impossible to understand how she could be thought to be blurring, tarnishing, or otherwise free riding to any significant extent on Ty's investment in its mark. To say she was would amount to saying that if a used car dealer truthfully advertised that

it sold Toyotas, or if a muffler manufacturer truthfully advertised that it specialized in making mufflers for installation in Toyotas, Toyota would have a claim of trademark infringement. Of course there can be no aftermarket without an original market, and in that sense sellers in a trademarked good's aftermarket are free riding on the trademark. But in that attenuated sense of free riding, almost everyone in business is free riding.

Ty's argument is especially strained because of its marketing strategy. As we explained in an earlier case brought by Ty, *Ty, Inc. v. GMA Accessories, Inc.*, 132 F.3d 1167, 1173 (7th Cir. 1997), Ty deliberately produces a quantity of each Beanie Baby that fails to clear the market at the very low price that it charges for Beanie Babies. The main goal is to stampede children into nagging their parents to buy the new Baby lest they be the only kid on the block who doesn't have it. A byproduct (or perhaps additional goal) is the creation of a secondary market, like the secondary market in works of art, in which prices on scarce Beanie Babies are bid up to a market-clearing level. Perryman is a middleman in this secondary market, the market, as we said, that came into existence as the result, either intended or foreseen, of a deliberate marketing strategy. That market is unlikely to operate efficiently if sellers who specialize in serving it cannot use "Beanies" to identify their business. Perryman's principal merchandise is Beanie Babies, so that to forbid it to use "Beanies" in its business name and advertising (Web or otherwise) is like forbidding a used car dealer who specializes in selling Chevrolets to mention the name in his advertising.

It is true that Web search engines do not stop with the Web address; if Perryman's Web address were www.perryman.com but her Web page mentioned Beanies, a search for the word "Beanies" would lead to her Web page. Yet we know from the events that led up to the passage in 1999 of the Anti-cybersquatting Consumer Protection Act, 15 U.S.C. § 1125(d), that many firms value having a domain name or Web address that signals their product. (The "cybersquatters" were individuals or firms that would register domain names for the purpose of selling them to companies that wanted a domain name that would be the name of their company or of their principal product.) After all, many consumers search by typing the name of a company in the Web address space (browser) on their home page rather than by use of a search engine. We do not think that by virtue of trademark law producers own their aftermarkets and can impede sellers in the aftermarket from marketing the trademarked product. In this respect the case parallels our most recent decision dealing with Ty's intellectual property, in which we found that Ty was attempting to control the market in collectors' guides to Beanie Babies by an overly expansive interpretation of its copyrights. *Ty, Inc. v. Publications Int'l Ltd.*, 292 F.3d 512 (7th Cir. 2002).

We surmise that what Ty is seeking in this case is an extension of antidilution law to forbid commercial uses that accelerate the transition from trademarks (brand names) to generic names (product names). Words such as "thermos," "yo-yo," "escalator," "cellophane," and "brassiere" started life as trademarks, but eventually lost their significance as source identifiers and became the popular names of the product rather than the name of the trademark owner's brand, and

when that happened continued enforcement of the trademark would simply have undermined competition with the brand by making it difficult for competitors to indicate that they were selling the same product—by rendering them in effect speechless. Ty is doubtless cognizant of a similar and quite real danger to "Beanie Babies" and "Beanies." Notice that the illustrations we gave of trademarks that became generic names are all descriptive or at least suggestive of the product, which makes them better candidates for genericness than a fanciful trademark such as "Kodak" or "Exxon." Ty's trademarks likewise are descriptive of the product they denote; its argument that "Beanies" is "inherently distinctive" (like Kodak and Exxon), and therefore protected by trademark law without proof of secondary meaning, is nonsense. A trademark that describes a basic element of the product, as "Beanies" does, is not protected unless the owner can establish that the consuming public accepts the word as the designation of a brand of the product (that it has acquired, as the cases say, secondary meaning). *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 769 (1992); *Platinum Home Mortgage Corp. v. Platinum Financial Group, Inc.*, 149 F.3d 722, 727 (7th Cir. 1998). As the public does with regard to "Beanies"—for now. But because the word is catchier than "beanbag stuffed animals," "beanbag toys," or "plush toys," it may someday "catch on" to the point where the mark becomes generic, and then Ty will have to cast about for a different trademark.

Although there is a social cost when a mark becomes generic—the trademark owner has to invest in a new trademark to identify his brand—there is also a social benefit, namely an addition to ordinary language. A non-trivial

number of words in common use began life as trademarks. See, e.g., Shawn M. Clankie, "Brand Name Use in Creative Writing: Genericide or Language Right?" in *Perspectives on Plagiarism and Intellectual Property in a Postmodern World* 253 (Lisa Buranen and Alice M. Roy eds.1999); Monroe Friedman, "The Changing Language of a Consumer Society: Brand Name Usage in Popular American Novels in the Postwar Era," 11 *Journal of Consumer Research* 927 (1985). An interpretation of antidilution law as arming trademark owners to enjoin uses of their mark that, while not confusing, threaten to render the mark generic may therefore not be in the public interest. Moreover, the vistas of litigation that such a theory of dilution opens up are staggering. Ty's counsel at argument refused to disclaim a right to sue the publishers of dictionaries should they include an entry for "beanie," lowercased and defined as a beanbag stuffed animal, thus accelerating the transition from trademark to generic term. He should have disclaimed such a right. See *Illinois High School Ass'n v. GTE Vantage Inc.*, 99 F.3d 244, 246 (7th Cir. 1996); 2 *McCarthy on Trademarks and Unfair Competition*, *supra*, § 12:28, pp. 12-79 to 12-81.

We reject the extension of antidilution law that Ty beckons us to adopt, but having done so we must come back to the skipped issue of confusion. For although 80 percent of Perryman's sales are of Ty's products, this means that 20 percent are not, and on her Web page after listing the various Ty products under such names as "Beanie Babies" and "Teenie Beanies" she has the caption "Other Beanies" and under that is a list of products such as "Planet Plush" and "Rothschild Bears" that are not manufactured by Ty. This is plain misdescription, in fact false advertising, and

supports the last prohibition in the injunction, the prohibition against using "Beanie" or "Beanies" "in connection with any non-Ty products." That much of the injunction should stand. But Ty has not demonstrated any basis for enjoining Perryman from using the terms in "any business name, Internet domain name, or trademark."

We can imagine an argument that merely deleting "Other Beanies" is not enough; that if the other beanbag stuffed animals look much like Ty's, consumers might assume they are "Beanies," or if not, that they still might associate "Beanies" with these other animals, causing the term to lose its distinctness as the name of Ty's products. But we do not understand Ty to be seeking a broadening of the injunction to require a disclaimer as to the source of the non-Ty products sold by Perryman. This however is a matter that can be pursued further on remand.

So the judgment must be vacated and the case remanded for the formulation of a proper injunction. But is more open on remand? The judge merely granted summary judgment for Ty, and we are merely reversing (in part) that ruling. Ordinarily this would mean that Ty would have a shot at a trial in which it might try to convince the judge (as there is no jury in trademark cases) that its rights under antidilution law really were violated. But this case is unusual because, given Perryman's status as a seller in the secondary market created as a result of Ty's marketing strategy, we cannot imagine a state of facts consistent with the extensive record compiled in the summary judgment proceeding that could possibly justify an injunction against Perryman's representing in her business name and Internet and Web addresses that

she is doing what she has a perfect right to do, namely sell Beanie Babies. We therefore direct that the proceedings on remand be limited to the reformulation of the injunction in conformity with this opinion.

VACATED AND REMANDED
WITH INSTRUCTIONS.

A true Copy:
Teste:

Clerk of the United States Court of Appeals for the Seventh Circuit

APPENDIX B — MEMORANDUM OPINION OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION DATED OCTOBER 10, 2001

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS EASTERN DIVISION

No. 99 C 8190

TY INC.,

Plaintiff,

v.

RUTH PERRYMAN,

Defendant.

MEMORANDUM OPINION

Before the court is the defendant's motion for clarification and to alter or amend summary judgment on Count III of the plaintiff's complaint, which we entered on July 17, 2001. For the reasons explained below, we grant the motion for clarification and deny the motion to alter or amend judgment.

BACKGROUND

The facts of this case were described in our earlier opinion, and are as follows:

> The plaintiff, Ty Inc. ("Ty"), manufactures and sells plush bean bag toys marketed as

BEANIE BABIES, and variations of the BEANIE BABIES, including Teenie Beanie Babies, Beanie Buddies, Beanie Kids, E-Beanies, Pillow Pals, and Attic Treasures. The defendant, Ruth Perryman, is a second-hand dealer in bean bag toys, including Ty's BEANIE BABIES, which she sells over the Internet. Ty brought this action to stop Perryman from using the term "beanies" as a component of her business name, Bargain Beanies, and her Internet domain name, Bargainbeanies.com.

Ty first began selling its line of plush bean bag toys in 1993, when it introduced the BEANIE BABIES. Plaintiff's Statement of Undisputed Facts ("Pl.'s Facts), ¶ 6. The BEANIE BABIES are shaped like animals, and a heart-shaped swing tag attached to each toy states, among other things, the name of the BEANIE BABY, its "date of birth," and includes a short poem. Ty sells BEANIE BABIES at a price of five to seven dollars apiece. Ty experienced a great deal of success in the market with the BEANIE BABIES and introduced a second line of products, Teenie Beanie Babies, in April of 1997. *Id.* at ¶ 10.

In 1998 and thereafter, Ty introduced three more lines of toys which include the word "Beanie" as a component of the name: Beanie Buddies, Beanie Kids, and E-Beanies. *Id.* at ¶¶ 13-15. The E-Beanies are sold through Ty's licensee, Ty Trade, on its web site, TyTrade.com. *Id.* at ¶ 15. Ty also sells other products, such as swing tag protectors, product display cases, calendars, collectors cards, and

collectors card binders, all of which display some variation of the name "Beanie" in the packaging, on the product, or in the product description. *Id.* at ¶ 16, and exs. 27, 28, 29. Apart from the collectors cards, which were introduced in 1998, it is unclear when the other products were introduced. In 1998, Ty also introduced The Beanie Babies Official Club kit. *Id.* at ¶¶ 16 and 18. Ty has obtained several trademark registrations, including BEANIE BABIES, THE BEANIE BABIES COLLECTION, TY BEANIE BABIES OFFICIAL CLUB ORIGINAL BEANIE BABY, and THE BEANIE BUDDIES COLLECTION. *Id.* at ¶ 29.

Perryman established her Bargain Beanies business in November and December of 1997. Def's Statement of Undisputed Facts ("Def.'s Facts"),¶ 1. She registered the Bargainbeanies.com Internet domain name and obtained a Seller's Permit from the California State Board of Equalization in December of 1997. *Id.* and Def.'s exs. 4 and 5. According to Perryman, she began her business because she became aware of consumer demand for BEANIE BABIES. *Id.* at ¶ 6. She distinguishes her business from Ty's in a number of ways: she is a second-hand dealer in BEANIE BABIES and sells Ty products only on the secondary market, *id.* at ¶ 23, 65; she sells BEANIE BABIES that have been "retired" (i.e. no longer manufactured), *id.* at ¶ 66; she sells other toys that Ty does not manufacture; and she charges as little as four

> dollars and as much as one hundred dollars apiece. *Id.* at ¶ 69. Although she is not currently running the web site, she intends to start it again.
>
> Ty first complained to Perryman about her use of the name Bargain Beanies and Bargain-beanies.com in November of 1999. Ty filed this lawsuit in December of 1999 alleging trademark infringement, unfair competition, and trademark dilution under the Lanham Act, 15 U.S.C. §§ 1114, 1125(a) and (c), and state law claims for deceptive trade practices under the Illinois Consumer Fraud and Deceptive Business Practices Act and the Illinois Uniform Deceptive Trade Practices Act.

Ty v. Perryman, No. 99 C 8190, 2001 WL 826893 at *1-2 (N.D. Ill. July 17, 2001). The parties made cross motions for summary judgment on all claims, and on July 17, 2001, we issued a ruling denying the defendant's motion for summary judgment on all claims, and denying the plaintiff's motion for summary judgment on Counts I, II, and IV. *Id.* However, finding that Ty has a protectible interest in the term "beanies," we granted the plaintiff's motion for summary judgment on its claim of trademark dilution (Count III).

The defendant now moves for a clarification of our summary judgment order. She notes that in granting summary judgment on Ty's trademark dilution claim, we highlighted the defendant's use of the term "beanies" to refer to non-Ty products on a particular page of her website. Defendant requests that we clarify our order to state whether her use of the domain name "bargainbeanies.com" or the business name

"Bargain Beanies" also dilutes Ty's trademark. In the event we answer in the affirmative, the defendant moves to alter or amend judgment.

ANALYSIS

We grant the defendant's motion for clarification. In our order granting summary judgment to Ty for trademark dilution, we held that "Ty has met its burden of showing that the defendant's use of the term 'beanies' dilutes its protectable marks." *Id.* at *14. Our holding was not limited to the particular page of defendant's website using the term "beanies" to refer to third party products. The defendant's use of the mark "beanies" in the name "Bargain Beanies" and "bargainbeanies.com" also has the effect of diluting Ty's trademark.

The defendant also moves pursuant to Federal Rule of Civil Procedure 59(e) to alter or amend judgment. The defendant notes that to prevail on a claim of trademark dilution, the court must find, among other things, that the trademark was famous and that it was similar to the defendant's mark. The defendant argues that it was improper to grant summary judgment on this claim because there was insufficient evidence that Ty's "beanies" mark was famous by December of 1997. In addition, the defendant argues that this court was incorrect to conclude that she conceded her marks are similar to Ty's "beanies" mark. Finally, she argues that the plaintiff failed to address her laches defense and this precludes summary judgment.

Appendix B

I. *Fame of the "Beanies" Mark*

Defendant argues that there was insufficient evidence to find that Ty's "beanies" mark was famous by December of 1997. She argues that this court considered post-1998 evidence from other cases involving Ty to determine the "beanies" mark was famous, and gave short shrift to the evidence she presented.

This court did not adopt the findings of fact made in other cases involving Ty products. The analysis of whether Ty's "beanies" mark was famous by 1998 is somewhat similar to the question of whether it had attained secondary meaning. Our analysis on both of these issues was limited exclusively to the evidence presented by the parties. We explicitly refused to consider any post-1998 evidence. *See id.* at 11-13. Defendant cannot point to a single instance where we considered post-1998 evidence in determining the question of secondary meaning or fame. We did not even cite any other cases involving Ty in these sections of our opinion.

It is true that in other sections of our opinion, where the fame of the "beanies" mark was *not* at issue, we cited other cases involving Ty. To the extent these cases reviewed some of the same evidence presented here, their legal analyses of that evidence was helpful or lent support to our position. For example, we cited a case involving the question of whether the term "beanies" was a generic term, which quoted a dictionary definition identical to the one we discussed. *Id.* at *10 (citing *Ty, Inc. v. The Jones Group,* 98 F. Supp. 2d 988 (N.D. Ill. 2000)). We cited the *plaintiff's* evidence of newspaper articles to support the conclusion that in 1996

and 1997 the media used the word "beanies" to refer to Ty products rather than bean bag toys generically. *Id.* Although we included a citation to another case involving Ty, we specifically noted that it reviewed only *some* of the same evidence presented in this case and was presented in a different procedural posture. *See id.* (citing *Ty, Inc. v. Softbelly's Inc.*, No. 00 C 5230, 2001 WL 125321 (N.D. Ill. Feb. 9, 2001)). At no time did we adopt the factual findings of another court to determine an issue involved in this case.[1]

As to the defendant's argument that we erred in finding that "beanies" was famous by December of 1997, we decline to reconsider our ruling. Our Memorandum Opinion discussed at length and in detail the evidence submitted by both parties. Defendant fails to establish any manifest errors of law or fact nor does she present any newly discovered evidence. *See Federal Deposit Ins. Corp. v. Meyer,* 781 F.2d 1260, 1268 (7th Cir. 1986) (stating that motions to alter or amend a judgment "must clearly establish either a manifest error of law or fact or must present newly discovered evidence" and that "[t]hese motions cannot be used to raise arguments which could, and should, have been made before the judgment issued.").

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1. The defendant also argues that we adopted the findings of other courts which considered "beanies" the salient portion of Ty's BEANIE BABIES mark, and that this "logically influenced the 'famous' issue." Defendant's Memorandum, at 2. This argument is almost frivolous. It is true that we discussed other Ty cases in our likelihood of confusion analysis, but we did not adopt their conclusions, and we specifically considered "the marks as a whole and as actually used." *Perryman,* 2001 WL 826893 at *4-5. Moreover, defendant does not explain how this element of the likelihood of confusion analysis has any bearing on the question of fame.

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Defendant's motion to alter or amend judgment on the issue of whether "beanies" had attained famous status by 1998 is denied.

II. ***Similarity of "Beanies" Mark to "Bargain Beanies"***

In our Memorandum Opinion we stated:

> To the extent the plaintiff claims dilution of its BEANIE BABIES mark, we agree with the defendant that there is a genuine factual question as to whether that mark is sufficiently similar to "bargainbeanies.com." The defendant does not make the same argument regarding the "beanies" mark, but rather reverts to her position that "beanies" is a generic term not entitled to trademark status. We disagree, and in view of defendant's apparent concession on this issue, find that the two are similar.

Perryman, 2001 WL at 826893 at *14 (internal citations omitted). The defendant argues that she did not concede the similarity of the two names.

The defendant's summary judgment briefs contain no argument that Ty's "beanies" mark is dissimilar to her "bargainbeanies.com" or "Bargain Beanies" marks. Even though the plaintiff specifically compared the "beanies" mark against the defendant's marks in its summary judgment brief, the defendant made no effort to compare the two. *See* Ty's Memorandum in Support of Its Cross- Motion for Summary Judgment, at 6-7. Instead, the sections of defendant's brief

discussing similarity of marks state either that "beanies" is not entitled to trademark protection in the first instance or that the "beanies" component of Ty's registered marks should not "be singled out." If the defendant did not deliberately concede this point by failing to argue it, she certainly waived it. *See Turner v. Chicago Housing Authority,* 760 F. Supp. 1299, 1310 (N.D. Ill. 1991) (dismissing count of plaintiffs' complaint because they failed to address defendant's argument, although they did not expressly concede the point).

We will clarify one point. In our analysis of the plaintiff's trademark infringement claim, we undertook the "likelihood of confusion" analysis, in which we compared the similarity of the plaintiff's registered marks, BEANIE BABIES or THE BEANIE BABIES COLLECTION, against Perryman's marks. We noted that because "bargain" is an element of Perryman's marks and that word connotes a different type of business than Ty is known to conduct, the marks were not sufficiently similar to conclude that confusion was likely. *Perryman,* 2001 WL 826893 at *5. The same analysis does not apply in a trademark dilution claim where the defendant uses the whole of the plaintiff's mark, here "beanies," in the defendant's domain and business names. *See PACCAR, Inc. v. Telescan Technologies, L.L.C.,* 115 F. Supp.2d 772, 779 (E.D. Mich. 2000) (stating that likelihood of confusion is not a necessary element of trademark dilution, and holding that use of plaintiff's trademarks (i.e. "kenworth") as an element of defendant's domain names (i.e. "kenworthusedtrucks.com") constituted trademark dilution). This is so because defendant's use of Ty's "beanies" mark in her domain name could cause consumers to identify it with "an unimaginable variety of products" appearing on her web site. *Perryman,* 2001 WL

826893 at *14; *see also PACCAR,* 115 F. Supp.2d at 780 (noting that plaintiff was at defendant's mercy because plaintiff had no influence or control over what appeared on defendant's web sites).

The defendant's failure to argue the similarity of Ty's "beanies" mark to her own marks was tantamount to a concession, with no practical difference. We reaffirm our holding that defendant's use of "bargainbeanies.com" and "Bargain Beanies" dilutes the plaintiff's "beanies" trademark.

III. *Laches Defense*

Finally, the defendant argues that summary judgment should not have been granted on Count III because the plaintiff failed to overcome her laches defense. We disagree. "Where the nonmoving party fails to make a showing sufficient to establish the existence of an essential element on which he would bear the burden of proof at trial, summary judgment should be entered against him." *Fitzpatrick v. Catholic Bishop of Chicago,* 916 F.2d 1254, 1256 (7th Cir. 1990) (citing *Celotex Corp. v. Catrett,* 477 U.S. 317 (1986)). The defendant bears the burden of proof on the affirmative defense of laches. *Central States Southeast and Southwest Areas Pension Fund v. Heineman Distributing,* No. 93 C 1246, 1994 WL 496730, *3 (N.D. Ill. Sept. 9, 1994) (granting partial summary judgment to the plaintiff where the defendant failed to prove its laches defense). In *Logan v. Commercial Union Ins. Co,* 96 F.3d 971, 979 (7th Cir. 1996), however, the Seventh Circuit clarified that while the movant is not required to *disprove* the nonmovant's defense, it must "demonstrate[ ]

that the nonmovant will be unable to produce any evidence at trial supporting an essential element of a claim for which the nonmovant bears the burden of proof ."

Here, however, the defendant forfeited this argument by failing to raise it either in her response to the plaintiff's motion for summary judgment or in her own motion for summary judgment. *See id.* (noting that plaintiff forfeited his argument by failing to raise it in his response to the motion for summary judgment). This court undertook an extremely time-consuming review of the parties' briefs and evidence presented, all of which amounted to a mountain of paperwork. It strikes us as unreasonable for the defendant to remain mute on the question of her affirmative defense, wait for judgment, and only after receiving an unfavorable ruling argue that her affirmative defense precludes summary judgment. *See e.g., Bank Leumi Le-Israel, B.M. v. Lee,* 928 F.2d 232, 235 (7th Cir. 1991) ("A trial judge may properly depend upon counsel to apprise him of the issues for decision. He is not obligated to conduct a search for other issues which may lurk in the pleadings.").

Because the defendant could have, but did not, raise the laches defense in the cross motions for summary judgment, we find that she has waived it for purposes of the trademark dilution claim. *See Federal Deposit Ins. Corp.,* 781 F.2d at 1268.

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CONCLUSION

The defendant's motion for clarification is granted, as reflected above. The defendant's motion to alter or amend judgment is denied.

Date: October 10, 2001

ENTER: s/ John F. Grady
John F. Grady, United States District Judge

APPENDIX C — MEMORANDUM OPINION OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION DATED JULY 17, 2001

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS EASTERN DIVISION

No. 99 C 8190

TY INC.,

Plaintiff,

v.

RUTH PERRYMAN,

Defendant.

MEMORANDUM OPINION

Before the court are the parties' cross-motions for summary judgment on all counts. For the reasons set forth below, the defendant's motion is denied as to all counts, and the plaintiff's motion is denied as to counts I, II, and IV, but granted as to count III.

BACKGROUND

The plaintiff, Ty Inc. ("Ty"), manufactures and sells plush bean bag toys marketed as BEANIE BABIES, and variations of the BEANIE BABIES, including Teenie Beanie Babies, Beanie Buddies, Beanie Kids, E-Beanies, Pillow Pals, and

Attic Treasures. The defendant, Ruth Perryman, is a second-hand dealer in bean bag toys, including Ty's BEANIE BABIES, which she sells over the Internet. Ty brought this action to stop the Perryman from using the term "beanies" as a component of her business name, Bargain Beanies, and her Internet domain name, Bargainbeanies.com.

Ty first began selling its line of plush bean bag toys in 1993, when it introduced the BEANIE BABIES. Plaintiff's Statement of Undisputed Facts ("Pl.'s Facts), ¶ 6.[1] The BEANIE BABIES are shaped like animals, and a heart-shaped swing tag attached to each toy states, among other things, the name of the BEANIE BABY, its "date of birth," and includes a short poem. Ty sells BEANIE BABIES at a price of five to seven dollars apiece. Ty experienced a great deal of success in the market with the BEANIE BABIES and introduced a second line of products, Teenie Beanie Babies, in April of 1997. *Id.* at ¶ 10.

In 1998 and thereafter, Ty introduced three more lines of toys which include the word "Beanie" as a component of the name: Beanie Buddies, Beanie Kids, and E-Beanies. *Id.* at ¶¶ 13-15. The E-Beanies are sold through Ty's licensee, Ty Trade, on its web site, TyTrade.com. *Id.* at ¶ 15. Ty also sells other products, such as swing tag protectors, product display cases, calendars, collectors cards, and collectors card binders, all of which display some variation of the name

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1. Perryman responds selectively to Ty's statement of facts, usually restricting her comments to areas in which she disagrees with Ty. To the extent she does not specifically deny or disagree with a factual assertion made by Ty, we consider that she is admitting the fact. *See* Local Rule 56.1(b)(3)(B).

"Beanie" in the packaging, on the product, or in the product description. *Id.* at ¶ 16, and exs. 27, 28, 29. Apart from the collectors cards, which were introduced in 1998, it is unclear when the other products were introduced. In 1998, Ty also introduced The Beanie Babies Official Club kit. *Id.* at ¶¶ 16 and 18. Ty has obtained several trademark registrations, including BEANIE BABIES, THE BEANIE BABIES COLLECTION, TY BEANIE BABIES OFFICIAL CLUB ORIGINAL BEANIE BABY, and THE BEANIE BUDDIES COLLECTION. *Id.* at ¶ 29.

Perryman established her Bargain Beanies business in November and December of 1997. Def's Statement of Undisputed Facts ("Def.'s Facts"), ¶ 1.[2] She registered the Bargainbeanies.com Internet domain name and obtained a Seller's Permit from the California State Board of Equalization in December of 1997. *Id.* and Def.'s exs. 4 and 5. According to Perryman, she began her business because she became aware of consumer demand for BEANIE BABIES. *Id.* at ¶ 6. She distinguishes her business from Ty's in a number of ways: she is a second-hand dealer in BEANIE BABIES and sells Ty products only on the secondary market, *id.* at ¶ 23, 65; she sells BEANIE BABIES that have been "retired" (i.e. no longer manufactured), *id.* at ¶ 66; she sells other toys that Ty does not manufacture;

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2. Ty does not deny this fact, but states that Perryman has not provided documentary evidence that she actually conducted business under the Bargain Beanies name in 1997. Pl.'s Response to Def's Facts, ¶ 1. Perryman did provide evidence in the form of her affidavit (¶ 16), and also attached as an exhibit copies of post office receipts for shipping her inventory to purchasers. *See* Perryman Decl., ¶ 23; Def.'s ex. 7.

and she charges as little as four dollars and as much as one hundred dollars apiece. *Id.* at ¶ 69. Although she is not currently running the web site, she intends to start it again.

Ty first complained to Perryman about her use of the name Bargain Beanies and Bargainbeanies.com in November of 1999. Ty filed this lawsuit in December of 1999 alleging trademark infringement, unfair competition, and trademark dilution under the Lanham Act, 15 U.S.C. §§ 1114, 1125(a) and (c), and state law claims for deceptive trade practices under the Illinois Consumer Fraud and Deceptive Business Practices Act and the Illinois Uniform Deceptive Trade Practices Act.

Ty argues that Perryman is attempting to leverage the goodwill it has established for its BEANIE BABIES and related products. According to Ty, the defendant's use of the mark Bargain Beanies confuses and deceives consumers into believing "that Defendant's business is associated with or licensed by Ty, or that the products sold by Defendants all originate with Ty."

The defendant insists, however, that the term "beanies" is nothing more than a generic term meaning bean bag toys generally. Therefore, defendant's use of the term "beanies" cannot constitute trademark infringement. In the alternative, she argues that the term "beanies" is a descriptive term for which Ty had not established secondary meaning by December of 1997. She further argues that there is no likelihood of reasonable consumers confusing her business with Ty's.

The parties have filed cross-motions for summary judgment.

Appendix C

ANALYSIS

Summary judgment "shall be rendered forthwith if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed. R. Civ. P. 56(c). We construe the evidence and all inferences that reasonably can be drawn therefrom in the light most favorable to the nonmoving party, *see Pitasi v. Gartner Group, Inc.*, 184 F.3d 709, 714 (7th Cir. 1999), but we will enter summary judgment against a party who does not "come forward with evidence that would reasonably permit the finder of fact to find in [its] favor on a material question." *McGrath v. Gillis*, 44 F.3d 567, 569 (7th Cir. 1995).

We note that this is not the first case Ty has brought to enforce its asserted trademark rights. *See e.g., Ty, Inc. v. Jones Group, Inc.*, 98 F. Supp.2d 988 (N.D. Ill. 2000), *aff'd*, 237 F.3d 891 (7th Cir. 2001) (affirming grant of preliminary injunction in favor of Ty); *Ty, Inc. v. Softbelly's Inc.*, No. 00 C 5230, 2001 WL 125321 (N.D. Ill. February 9, 2001) (granting Ty a preliminary injunction); *Ty, Inc. v. Publications Int'l, Ltd.*, No. 99 C 5565, 2000 WL 1499449 (N.D. Ill. Oct. 6, 2000) (declining to grant summary judgment for Ty). Two of these cases were presented in a different procedural posture than this case, but all are helpful insofar as they review some of the evidence and legal principles at issue here. Of particular help is the *Publications International* case, which sets the stage for some of the issues presented here:

> The consumer frenzy over Beanie Babies can be attributed in part to Ty's unique marketing strategy.

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> Ty creates scarcity in the market by selling its products only to small retail stores, and then only in small quantities. In addition, Ty periodically retires different Beanie Babies, taking them out of circulation and thus boosting their market value among collectors. Ty's marketing plan emphasizes the collectible nature of its products, and collectors are constantly on the lookout for new Beanie Babies.
>
> A thriving secondary Beanie Babies collector's market has emerged. Beanie Baby enthusiasts trade and sell Ty's products over the Internet, at yard sales, through classified ads, and through collectors' clubs. There have been hundreds—perhaps thousands—of newspaper articles and television news stories discussing the market for Beanie Babies, as well as a proliferation of Beanie-related web sites. Beanie Babies are not the exclusive province of child collectors. Ty's toys are sought after by potential investors who hope to capitalize on the sale of "rare" Babies, some of which fetch thousands of dollars at collectors' auctions.

Publications Int'l, Ltd., 2000 WL 1499449 at *1; *see also* Pl.'s exs. 11, 19, 55, 56, 57, 63, & 65 (numerous newspaper articles reporting on the BEANIE BABIES phenomenon, collectors of Ty products, and the secondary markets for these toys). With this background in mind, we turn to consideration of the parties' cross-motions for summary judgment.

Appendix C

I. Trademark Infringement, Unfair Competition, and Deceptive *Trade Practices*

In order to prevail on a claim of trademark infringement and unfair competition, the plaintiff may assert a registered trademark under 15 U.S.C. § 1114, or prove that it has a protectable unregistered trademark under 15 U.S.C. § 1125(a). Whether the plaintiff claims infringement of a federally registered trademark under § 1114, or an unregistered trademark under § 1125, the question of infringement is governed by the "likelihood of confusion" test. *AHP Subsidiary Holding Co. v. Stuart Hale Co.*, 1 F.3d 611, 615 (7th Cir. 1993); *S Indust., Inc. v. Diamond Multimedia Systems, Inc.*, 991 F. Supp. 1012, 1017 (N.D. Ill. 1998) (noting also that "[s]ection 1125(a) of the Lanham Act prohibits a broader range of practices than does § 1114 which applies only to registered marks.").

The two claims must be analyzed separately where, as in this case, the plaintiff's claims of infringement and unfair competition stem from both registered and unregistered marks.

A. *Plaintiff's claim of infringement of a registered mark under § 1114*

Ty has not registered the mark "Beanies." By December of 1997, the only marks Ty had registered which included the word "beanie" were BEANIE BABIES and THE BEANIE BABIES COLLECTION. The question presented is whether the defendant infringed the trademarks BEANIE BABIES or THE BEANIE BABIES COLLECTION by using the names Bargain Beanies or Bargainbeanies.com.

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Under § 1114, a trademark is protected against infringement by "colorable imitation[s]" of the mark which are "likely to cause confusion, or to cause mistake or to deceive" consumers as to the source of origin of the goods. *Lippo v. Mobil Oil Corp.*, 776 F.2d 706, 719 n. 20 (7th Cir. 1985); *Hormel Food Corp. v. Jim Henson Production, Inc.*, 73 F.3d 497, 502 (2nd Cir. 1996) (affirming denial of injunctive relief to plaintiff who claimed that its trademark SPAM was infringed by producer's creation of a puppet named "Spa'am"). Questions of likelihood of confusion involve all fact and no law, *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d 1423, 1428 (7th Cir. 1985), and these questions are usually reserved for the jury. *Nike, Inc. v. Just Did It Enterprises*, 6 F.3d 1225, 1233 (7th Cir. 1993) ("Whether customers would confuse MIKE and the swoosh design as affiliated with NIKE is a question of fact over which reasonable minds may differ.") Consequently, courts approach motions for summary judgment on this issue with great caution. *AHP Subsidiary Holding Co.*, 1 F.3d at 616.

This is not a case comparing two *products* bearing similar trademarks which could create a likelihood that sales would be diverted to the plaintiff's competitor. *Cf. Jones Group, Inc.*, 237 F.3d 891 (comparing BEANIE BABIES to Beanie Racers); *Softbelly's Inc.*, 2001 WL 125321 (comparing BEANIE BABIES to Screenie Beanies). But trademark infringement is not limited to such cases; we must consider whether consumers would believe that the defendant's *business* is "in some way related to, or connected or affiliated with, or sponsored by" the plaintiff. *Nike, Inc.*, 6 F.3d at 1228.

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The Seventh Circuit considers seven factors in evaluating likelihood of confusion: (1) the similarity of the marks in appearance and suggestion; (2) the similarity of the products; (3) the area and manner of concurrent use; (4) the degree of care likely to be exercised by consumers; (5) the strength of the plaintiff's mark; (6) whether any actual confusion exists; and (7) the defendant's intent to palm off its goods as those of the plaintiff. *Jones Group, Inc.*, 237 F.3d at 897. None of the seven factors is dispositive in itself. *See AHP Subsidiary Holding Co.*, 1 F.3d at 616.

1. *Similarity of the marks*

The obvious similarity between the plaintiff's BEANIE BABIES and THE BEANIE BABIES COLLECTION marks and the defendant's "Bargain Beanies" mark is the use of the word "beanie(s)." It is this word that the plaintiff wishes to emphasize and the defendant tends to de-emphasize.

The plaintiff argues that "[i]f one word or feature of a composite trademark is the salient portion of the mark, it may be given greater weight than the surrounding elements." *The Jones Group, Inc.*, 237 F.3d at 898 (citing *Henri's Food Prods. Co., Inc. v. Kraft, Inc.*, 717 F.2d 352, 356 (7th Cir. 1983)). We find unconvincing Perryman's argument that the term "beanies" is generic, *see infra* I.B.1.a, and therefore, not entitled to extra consideration. In a case comparing the BEANIE BABIES mark to "Screenie Beanies," Judge Norgle observed that "[e]ven though Softbelly's mark makes use of the term 'screenie' in conjunction with 'beanies,' it is still 'beanies' which the mark trades on." *Softbelly's Inc.*, 2001 WL 125321, at *5. Comparing THE BEANIE BABY

COLLECTION to "Beanie Racers," another court observed that "[t]he word 'Beanie' is a well-known and famous part of the Ty mark, rendering it the more salient portion of the mark and therefore deserving greater weight than the surrounding elements." *The Jones Group, Inc.*, 237 F.3d at 899. These cases, however, were not decided on motions for summary judgment, but motions for preliminary injunctions, in which the plaintiff bore the less onerous burden of showing a better than negligible chance of prevailing on the merits.

Even though the word "beanies" is an important element of the marks in question, we are still bound to compare the marks as a whole and as actually used. *See Scandia Down Corp.*, 772 F.2d at 1431. The word "bargain" preceding "beanies" is significant. It connotes a negotiation where the purchaser agrees to pay a different price for the item than he would have paid had he bought it from the original seller. Indeed, that is the defendant's business — to sell these toys on the second-hand market.[3]

> [A]s the differences separating the [defendants' domain] names from the plaintiff's mark become more noticeable, the similarities are likely to appear to consumers as more reflective of the fact that both are being used to designate something having to do with [the same business] rather than indicating a common source.

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3. For example, in December of 1998, the defendant offered for sale three 1997 Teenie Beanies of the same model, Patti the Platypus. The price varied, depending on the condition of the tag. The toy with a mint tag cost $18.75; creased tag, $15.50; no tag, $12.50. Pl.'s ex. 107 (bargainbeanies.com web site).

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Trans Union LLC v. Credit Research, Inc., __ F. Supp. 2d __, 2001 WL 303688 (N.D. Ill. March 26, 2001) (quoting from *TCPIP Holding Co., Inc. v. Haar Communications, Inc.*, 244 F.3d 88, 101-02 (2nd Cir. 2001)). Words like "screenie" or "racers" seem to signify types of BEANIE BABIES which resemble Ty's own variations: "Teenie Beanies" or "Beanie Buddies." These marks do not imply that the products are unrelated to Ty. The word "bargain," on the other hand, may suggest a different sort of business than Ty is known to conduct.

In addition, the defendant displayed a disclaimer on her web site stating "Bargain Beanies is neither endorsed by nor affiliated with Ty, Inc., trademark holder of Beanie Babies." Pl.'s ex. 107. This tends to support the defendant's position that her mark is not confusing. Judge Zagel has made the following observation about disclaimers in the context of the second-hand market for BEANIE BABIES, which we believe applies with equal force in this case:

> The instant case involves a trademark owner whose products have achieved a unique status among many members of the public. There is a thriving market for second-hand Beanie Babies. Many participants in this market buy and sell Ty's products in non-traditional arenas such as at yard sales, through collectors' clubs, and over the Internet. Of course, it would be unreasonable to deny trademark protection to a manufacturer just because it had the "good fortune to have created a trade name . . . that became valued by the consuming public." *W.T. Rogers Co. v. Keene*,

> 778 F.2d 334, 340 (7th Cir. 1985). The fact remains, however, that in the specific context of the market for Beanie Babies, a consumer may be less likely to think that any one publication about Beanie Babies emanates from, or is endorsed by Ty. A disclaimer may have more effect in these particular circumstances.

Publications Int'l, Ltd., 2000 WL 1499449, at *12 (declining to grant summary judgment for Ty).

Taking all of these factors together, we believe that reasonable minds can differ as to whether the marks are sufficiently similar to create a likelihood of confusion.

2. *Similarity of the Products*

There is no product named "Bargain Beanies" to compare against BEANIE BABIES because "Bargain Beanies" is the name of a business. In identifying the appropriate comparison under these circumstances, we find instructive the case of *Moore Business Forms, Inc. v. Ryu*, 960 F.2d 486 (5th Cir. 1992). The plaintiff, Moore, manufactured business forms with the COMPURITE trademark. *Id.* at 488. The defendant began doing business about eleven years later under the name "CompuRite, Inc.," in which he sold, among other things, "a do-it-yourself version of Moore's product." *Id.* at 490. The court did not compare the business against the trademarked product; it compared the trademarked product against the product the defendant sold. *Id.* (affirming district court's judgment that there was a likelihood of confusion).

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When the defendant began her business, the only toys she sold were Ty's BEANIE BABIES. Perryman Dep. at 64 (noting that she also sold tag protectors); Pl.'s ex. 106 at 6.[4] In 1998, she added other toys to her business, but about eighty-percent of her sales consisted of "Ty BEANIE BABIES, and Beanie Buddies, and Ty products." Perryman Dep., at 65, 74. The other products she sold were bean bag toys or bean bag toy-related products. Pl.'s ex. 106, at 6 (defendant's answer to interrogatories). Apart from the non-Ty products she sold, the defendant also sold some Ty bean bag toys that Ty itself does not sell, namely the "retired" BEANIE BABIES.

Confusion would be most likely in instances where the defendant sold BEANIE BABIES that Ty itself was also selling through its retail outlets. *See Trans Union, LLC*, __ F. Supp. 2d __, 2001 WL 303688 (noting that visitors to the defendant's web site would find that the products offered were similar, sometimes identical, to those offered by the plaintiff). *See also Eli Lilly & Co. v. Natural Answers, Inc.*, 233 F.3d 456, 463 (7th Cir. 2000) (concluding that the products need not be interchangeable, only similar).

On the other hand, it is not sufficient simply to conclude that because Perryman and Ty sell BEANIE BABIES,

4. The defendant makes an argument about the use of the word "plush" toys versus "bean bag" toys. We are unsure what to make of this distinction, in view of the fact that defendant stated she began selling Ty bean bag toys in 1997 in her answer to plaintiff's interrogatories, and also acknowledged that BEANIE BABIES were the only plush toy she sold when her business began. She has presented no evidence that she sold anything other than BEANIE BABIES and tag protectors when her business began.

confusion would probably occur. As noted earlier, there is a thriving and well-known second-hand market for BEANIE BABIES. The defendant sells Ty products only on the secondary market. Def.'s Fact, ¶ 65. To the extent the relevant class of customers and potential customers of BEANIE BABIES knows about this phenomenon, the likelihood that they believe Ty is affiliated with a second-hand dealer, especially of retired toys, is diminished. *See* 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 23:5, at 23-17 (focusing on the confusion of members of the "relevant class of customers and potential customers"); *see also* Pl.'s exs. 11, 19, 55, 56, 57, 63, & 65 (articles reporting on the frenzy for collecting Ty's bean bag toys).

This element weighs in favor of the plaintiff, but there remains a genuine question of fact as to whether the similarity in the products creates a likelihood of confusion.

3. *The area and manner of concurrent use*

The concurrent use element focuses on the overlap of promotion, distribution, and sales of the products. Courts tend to focus on "the geographical area of distribution, whether there is evidence of direct competition between the relevant products, whether the products are sold in the same stores . . . whether the products are sold through the same 'marketing channels.' " *The Jones Group, Inc* ., 98 F. Supp. 2d at 999.

The defendant points out that at the time the defendant established her business, Ty did not sell BEANIE BABIES over the Internet and has never sold BEANIE BABIES on

the second-hand market. Ty argues that it has licensed TyTrade, Inc. to sell E-Beanies directly to consumers over the Internet, but admits that it does not sell BEANIE BABIES on the second-hand market.

According to the Eleventh Circuit, "[o]nce priority in the use of a mark for a particular class of goods or services has been established, the likelihood of confusion test is analyzed "as of the current time." *Carnival Brand Seafood Co. v. Carnival Brands, Inc.*, 187 F.3d 1307, 1311 n. 4 (11th Cir. 1999). The parties' concurrent use of the Internet is an important factor in Ty's favor. Once again, though, the two occupy very different places in the market, one catering to collectors interested in buying rare or retired BEANIE BABIES on the second-hand market, the other seeking to sell original BEANIE BABIES.

4. *Degree of Care Likely to be Exercised by Consumers*

Similar marks are more likely to confuse consumers as to source or sponsorship when less care is taken in purchasing a product. Arguably, consumers may exercise less care when purchasing low cost goods than when purchasing expensive goods.

The defendant argues that consumers will be more careful about buying her products because she charges as much as one hundred dollars for rare BEANIE BABIES and other Ty toys. Ty argues that its toys cost very little, selling for five to seven dollars, and "[t]he degree of care exercised by consumers will be minimal." Pl's Memo., at 8.

We view Ty's position with skepticism. In another case in which Ty was sued for trademark infringement, it argued that "BEANIE BABY customers are sophisticated about the product and will not be confused and will exercise care when purchasing." *See Imperial Toy Corp. v. Ty, Inc.*, 1998 WL 601875 at *4 (N.D. Ill. 1998) (manufacturer of bean bag lion, "Roary," sued after Ty produced a BEANIE BABY lion, which it also named "Roary"). Quite apart from having taken a contrary position on this issue in 1998, Ty itself submitted numerous newspapers articles reporting on the BEANIE BABIES phenomenon, many of which discussed the emerging second-hand market and the sophistication of even pre-adolescent children in purchasing more valuable BEANIE BABIES. *See* Pl.'s Exs. 11, 55-57, 63. While we do not consider these articles as evidence of the facts asserted therein, we consider them as evidence that information about BEANIE BABIES, including the secondary market and the reported value of rare or retired toys, was widely published in the mainstream media. *See Martin v. City of Indianapolis*, 192 F.3d 608, 613 (7th Cir. 1999).

On the whole, we believe consumers are likely to exercise care with respect to purchasing BEANIE BABIES, particularly those toys that are rare and carry a hefty price tag. *See Publications Int'l, Ltd.*, 2000 WL 1499449 at *13 (observing that collectors of BEANIE BABIES are "constantly concerned with the authenticity of their plush toys and identifying tags"). The more careful consumers are in making such purchases, the more likely they are to notice that the defendant's web site is not affiliated with Ty. *See id.* (determining that this element weighed in the defendant's favor because BEANIE BABIES collectors were more likely

to notice the absence of Ty's famous heart-shaped logo on the cover of defendant's collector's guides entitled "For the Love of Beanie Babies" and "The Beanie Babies Collector's Guide"). This element weighs slightly in favor of the defendant.

5. *The strength of the plaintiff's mark*

The plaintiff's BEANIE BABIES mark is clearly very strong. *Id.* It has been used since 1993 on its products, which have attained extraordinary fame. Pl.'s exs. 11, 19, 55-57, 63 & 65 (newspaper articles). This element weighs in Ty's favor.

6. *Evidence of actual confusion*

While actual confusion is not necessary to reach a finding that confusion is likely, *Eli Lilly*, 233 F.3d at 465, Ty argues that there is evidence that at least three consumers were confused and believed that the defendant was associated with Ty. Ty points to Perryman's deposition testimony, in which she stated that three customers became angry that her prices were higher than those of other BEANIE BABIES retailers. Pl.'s ex. 64 at 129.

It is not entirely clear, however, that the customers believed defendant was affiliated with Ty. Perryman testified that when customers complained about her prices, her response was to explain that she does not have a Ty account and therefore could not sell BEANIE BABIES for five dollars. Although it may be telling that Perryman felt the need to clarify her relationship with Ty in her response, this evidence

does not compel the conclusion that the customers believed she was affiliated with Ty.

7. The defendant's intent

There is no direct evidence that the defendant used the word "Beanies" in her business and domain names because she wanted to get a free ride on the goodwill Ty had established with the BEANIE BABIES mark. Ty's evidence on this point is that the defendant admitted in her deposition that she started Bargainbeanies.com because "it seem[ed] like an easier way to sell Beanie Babies and other plush toys." Pl.'s ex. 64 at 41. This statement is taken out of context. Perryman testified that she established the web site because it was easier than selling through e-mail or at shows. *Id.* She did not suggest that she invented the name Bargain Beanies because it would capture part of Ty's market.

As to circumstantial evidence, the plaintiff argues that because the six other factors favors it, the question of intent is easily resolved. As our discussion of the above elements demonstrates, we disagree.

The evidence on the likelihood of confusion is such that reasonable minds can differ. Therefore, it is inappropriate to grant summary judgment on Count I either to Ty or Perryman.

B. *Plaintiff's claim of unfair competition under § 1125(a)*

Section 1125 has been described as "the federal codification of traditional common law trademark rights." *S Industries*, 991 F. Supp. at 1017. In order to succeed in a

claim under § 1125(a), the plaintiff has to show that it has a prior, protectable trademark, and that the defendant's use of the mark is likely to cause confusion. *The Jones Group, Inc.*, 237 F.3d at 897.

1. *Protectable Trademark*

The parties hotly contest the issue of whether the term "beanies" is a mark that Ty is entitled to protect. We agree with the defendant that this court's analysis should be focused on the time period before she began her business in December of 1997. *See Johnny Blastoff, Inc. v. Los Angeles Rams Football Co.*, 188 F.3d 427, 433-34 (7th Cir. 1999); *S Industries*, 991 F. Supp. at 1018 ("It is axiomatic that the right to a distinctive mark belongs to the person who first continuously uses the mark to identify or distinguish goods or services in commerce."). The defendant argues that the term "beanies" is a generic term that is not entitled to trademark protection, or it is a descriptive term that had not attained secondary meaning by December of 1997. The plaintiff argues that it had established common law rights to the term "beanie(s)" through its continuous use of the word, and moreover, it became a well-known nickname for its BEANIE BABIES.[5] The burden is on Ty to show that "beanies" is entitled to protection under the Lanham Act. *Platinum Home Mortg. Corp. v. Platinum Fin. Group, Inc.*, 149 F.3d 722, 727 (7th Cir. 1998).

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5. Ty also argues that it owns the "Beanies" family of marks. It may, but Ty did not argue this point as to the relevant December 1997 time frame.

Appendix C

The first step in determining whether the term "beanie(s)" is entitled to protection is to place it in one of five categories of distinctiveness: (1) generic, (2) descriptive, (3) suggestive, (4) arbitrary, or (5) fanciful. *Mil-Mar Shoe Co., Inc. v. Shonac, Inc.*, 75 F.3d 1153, 1156-57 (7th Cir. 1996). Generic terms are words commonly used to name or designate a kind of good rather than a particular brand; for that reason, trademarking of generic terms is forbidden. *Door Sys., Inc. v. Pro-Line Door Systems, Inc.*, 83 F.3d 169, 171 (7th Cir. 1996). Descriptive terms are those which describe the ingredients, qualities, or characteristics of an article of trade, and are protected only if the term has achieved "secondary meaning" in the relevant market. *Mil-Mar Shoe Co., Inc.*, 75 F.3d at 1156-57. Suggestive, arbitrary, and fanciful marks are inherently distinctive, and entitled to full protection. *Id.*

a. *Generic term*

Whether "beanie(s)" is a generic term is a question of fact, but it may be resolved on a motion for summary judgment if the evidence is so one-sided that "there can be no doubt about how the question should be answered." *Door Sys., Inc.*, 83 F.3d at 171. Evidence of genericness may come from a number of sources, including consumer surveys, dictionaries, the media's use of the term, and competitors' use of the term. *See Softbelly's Inc.*, 2001 WL 125321, at *3. The burden is on the claimant to establish that the mark is not generic. *Mil-Mar Shoe Co.*, 75 F.3d at 1156.

If a word appears in the dictionary, "this would be powerful evidence that the term was generic, because nouns and other nominatives listed in dictionaries. . . . denote kinds

rather than specific entities." *Door Sys., Inc.*, 83 F.3d at 171. The word "beanies" appears in the dictionary, but has nothing to do with bean bags. According to Websters' Third New International Dictionary, a "beanie" is "1: a small round tight-fitting skullcap worn esp. by schoolboys and collegians 2: a woman's small round hat worn off the face." *See also The Jones Group*, 98 F. Supp. 2d at 994 (quoting an identical definition from Merriam Webster's Collegiate Dictionary (10th Ed. 1993)). Ty also introduces numerous newspaper articles from 1996 and 1997 which use the term "beanies" not to refer to bean bag toys generally, but to refer to BEANIE BABIES or Teenie Beanie Babies specifically. *See* Exs. 11, 19, 55-57, 63, 65; *see also Softbelly's Inc.*, 2001 WL 125321, at *3 (discussing some of the same evidence and determining that Ty had a better than negligible chance of proving that "beanies" is not generic).[6] Together, these factors are powerful evidence that the term "beanies" is not simply a generic term.

The defendant argues that the term "beanies" is simply an abbreviation of "bean bag" with a suffix attached, and that the plaintiff cannot escape a generic classification by its variant spelling. In support of this proposition, she cites *Miller Brewing Co. v. Jos. Schlitz Brewing Co.*, 605 F.2d 990, 995-97 (7th Cir. 1979), and *National Conf. of Bar Examiners v. Multistate Legal Studies*, 692 F.2d 478, 488 (7th Cir. 1982). In *Miller Brewing Co .*, the court concluded that the word "light" is generic, and that it could not be appropriated simply by misspelling it "lite." In *Bar*

6. Ty also presents evidence of consumer surveys. However, these surveys apparently were taken in 1998, and therefore are not directly relevant to the inquiry here.

Examiners, the court stated that abbreviating the generic name "multistate bar examination" to "MBE" did not alter its generic quality. These cases are not apposite. "Beanies" does not sound enough like "bean bag" to be considered a misspelling of it; nor is "bean" a common abbreviation for "bean bag" in the way that an acronym is a common abbreviation of multiple-word names. Neither of these cases suggests that a generic term remains generic if it is abbreviated and a suffix is added to it.

Perryman further argues that "beanie(s)" has been used generically by the media, the plaintiff's competitors, and prior companies which have manufactured bean bag toys. As to media uses, the defendant produces selected pages of four magazines from 1998 or later entitled "Mary Beth's Beanie World Magazine," "Beanie Update Trader," and "Beanie Collector." Def.'s exs. 1-3, 46. This material is not particularly helpful in that all of the magazines feature photographs of Ty's BEANIE BABIES on the cover; only one includes other bean bag toys in the cover shot. *Id.* In fact, the publisher's note on page two of "Mary Beth's Beanie World Magazine" refers to "Ty Beanie" as distinct from "non-Ty bean bag toys." Def.'s ex. 1, at 2. The defendant points out only six magazine pages in which the word "beanies" is used to refer to non-Ty bean bag toys. It is true that genericness can be shown by the unchallenged use of the mark by competitors. *The Jones Group*, 98 F. Supp. 2d at 994. However, this factor cuts in Ty's favor because it challenged the use of the "beanies" name in connection with the three magazines named above, as well as numerous other entities using the term. Pl.'s Resp. to Def.'s Fact, ¶ 13; Pl.'s exs. 74(a)-(w); 75-99. The defendant's argument that these policing efforts did not take place until after 1998 is

unavailing; she has not submitted evidence that these magazines used the term "beanies" to refer to non-Ty toys prior to 1998.

Perryman also argues that Ty did not originate the word "beanie" and, in fact, prior to 1986, six other toy manufacturers registered trademarks which included "beanie" as an element: Super Beanies, Beanie Camper, Honey Beanie, Teenie Beanies, Finger Beanie, and Easter Beanie. Def.'s Facts at ¶¶ 52-62. Only three of these products were bean bag toys, and all of the registrations have since been canceled. The defendant's citation to *Mil-Mar Shoe Co.* does not help her position; in that case, the defendant provided evidence that over 8,000 retail stores used the word at issue ("warehouse") in their names. 75 F.3d at 1159. The defendant's evidence is paltry in comparison.

Perryman's argument that the term "beanies" is found in patent and trademark literature as a name for bean bag toys is also unconvincing. There is a 1999 patent for an instructional bean bag toy named "Alpha Beanie Buddies," def.'s ex. 49, but the patent office uses the term "bean bag alphanumeric figure" to describe the product, not "beanie." The trademark literature defendant presents is a 1999 application for the mark "zmillennium" in which the applicant described his goods as "toys, mostly, beannie type," among other things. The Patent and Trademark Office did not categorize the applicant's goods using the word "beanie"; it simply recited his description of goods in its decision to refuse registration of the mark. This evidence at most establishes that the term "beanie" is descriptive rather than suggestive, arbitrary, or fanciful.

In sum, we find the defendant's evidence of genericness sparse at best. In contrast, the plaintiff's evidence is convincing, and we conclude that there is no genuine issue as to whether the term "beanies" is generic. It is not.

b. *Descriptive Term and Secondary Meaning*

If "beanies" is not generic, then it is at least descriptive.[7] A claimant is entitled to protect a descriptive term only if it has acquired secondary meaning "in the collective consciousness of the relevant community." *See Platinum Home Mortg. Corp.*, 149 F.3d at 727 (quoting *Mil-Mar Shoe*, 75 F.3d at 1157). "Secondary meaning refers to the manner in which a consumer identifies a specific business or a business's reputation by a particular trademark." *Id.* at 728. To establish public identification, courts may consider several factors, including (1) the amount and manner of advertising; (2) the sales volume; (3) the length and manner of use; (4) consumer testimony, and (5) consumer surveys. *Id.* Ty must establish secondary meaning by the time Perryman began using "beanies" as part of her mark.[8] *G. Heilman Brewing Co., Inc. v. Anheuser-Busch Inc.*, 676 F. Supp. 1436, 1468 (E.D. Wisc. 1987), *aff'd*, 873 F.2d 985 (7th Cir. 1989) (citing cases).

7. Ty asserts in a conclusory way that "beanies" is suggestive, but neither argues the point nor cites supporting case law. Plaintiff's Memorandum at 10. We will only consider the arguments it has presented.

8. Ty does not directly challenge the defendant's assertion that the relevant time frame is December of 1997. It appears to accept this as the appropriate date by offering evidence of pre-1998 use of the term "beanie(s)," but at other times either offers post-1998 evidence or does not identify a time frame at all.

Appendix C

As to the first factor, Ty points out that it established a popular web site to market and sell its products and that its licensee advertised its Teenie Beanie Babies as "Teenie Beanies." The web site, however, did not exist in December of 1997, and Ty does not state when the Teenie Beanies advertisements ran. There is no assertion that Ty ran advertisements in 1997 specifically using the term "beanies" by itself. On the other hand, the media used the word "beanies" repeatedly to refer specifically to Ty's BEANIE BABIES. Pl.'s ex. 65(c)-(gg) (media using "Beanie(s)" in headlines to refer to BEANIE BABIES); *see also* Pl.'s ex. 63(b)-(u) (media referring to Teenie Beanie Babies as "Teenie Beanies" prior to 1998).[9] Examples include the Atlanta Constitution's May 19, 1997 report, "Beanie Bonanza"; Tulsa World's April 25, 1997 article, "Beanie Stampede"; The Chattanooga Times' March 26, 1997 article, "The Beanie Boom," to name a few. The defendant concedes the admissibility of plaintiff's group exhibit 65. Def.'s Reply at 4.

Ty's use of the word "Beanies" prior to 1998 was limited to poems located on the swing tags of six models of the BEANIE BABIES (out of more than 150 models), as well as shipping boxes, and newsletters to Ty dealers. As early as 1995, Ty began using the word "Beanie(s)" on swing tags accompanying six BEANIE BABY models: Ziggy, Grunt, Dotty, Waves, Tuffy, and Garcia. *See* Pl.'s fact 22; Exs. 39-44, 47-51. The word was used only in the context of a poem

9. The plaintiff also submits exhibits 11(d)-(kkkk), 19(a)-(v), 55 and 57, which are over one hundred articles, many of which refer to BEANIE BABIES or Teenie Beanie Babies as "beanies" in the text of the article itself rather than the headline.

about the animal. For example, the poem on the swing tag of Dotty the Dalmatian's swing tag reads: "The Beanies all thought it was a big joke/ While writing her tag, their ink pen broke/ She got in the way, and got all spotty/ So now the Beanies call her Dotty!" Pl.'s ex. 42, 49. Although the first letter was capitalized, no "TM" symbol appeared on the tags. "Beanie(s)" bore no distinctive print style, had no different color, nor did it occupy a prominent position on the tag. About 15 million toys bearing these swing tags were sold prior to 1998.[10] Pl.'s ex. 45; *see infra* III. In addition, Ty shipping boxes were marked "Beanies ™" prior to 1998. Pl.'s Facts, ¶ 29. The toys themselves were not sold out of shipping boxes, nor is there any contention toys were mailed to consumers in these types of boxes. Ty also used the word "Beanies" in newsletters to dealers beginning in 1995, but there is no evidence consumers at large ever saw these newsletters. *Id.* at ¶ 31.

Neither party has offered consumer testimony. Ty presents a consumer survey, but the results were gathered from interviews taken from June 15 through June 22, 2000. Pl.'s ex. 100, at 7. This survey, therefore, is not relevant to consumer understanding of the term "beanies" in December of 1997.

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10. The defendant argues that only two of the tags submitted as evidence by the plaintiff (those for Garcia and Grunt) were circulated prior to 1998, and swing tags used between 1994 and early 1996 had no poems. Def.'s response to Pl.'s Fact 22. However, she provides no evidence to support her claim that swing tags originally had no poems. The plaintiff, on the other hand, provides evidence that the six BEANIE BABIES models at issue "contained the BEANIES trademark in their swing tags during the entire time they were marketed and sold by Ty." Rogers Decl., at ¶ 17.

Appendix C

The most compelling evidence in Ty's favor is the media's use of the term "beanies" to refer to its products prior to 1998. We agree with Ty that the media's use of "beanies" to refer to Ty products was so widespread and continuous by December of 1997 that it had become a nickname for BEANIE BABIES and other Ty products. This is true even if Ty's own use of the mark was not particularly widespread.

> For the purpose of establishing public identification of a mark with a product or service, the fact-finder may rely on the use of the mark in 'advertising brochures, catalogs, newspaper ads, and articles in newspapers and trade publications,' *T.A.B. Systems v. Pactel Teletrac*, 77 F.3d 1372, 1375 (Fed. Cir. 1996) . . . . In addition, courts have recognized that "abbreviations and nicknames of trademarks or names used *only* by the public give rise to protectable rights in the owners of the trade name or mark which the public modified." *Nat'l Cable Television Assoc. v. Am. Cinema Editors, Inc.*, 937 F.2d 1572, 1577 (Fed. Cir. 1991). Such public use of a mark is deemed to be on behalf of the mark's owners.

Johnny Blastoff, Inc., 188 F.3d at 434 (affirming grant of summary judgment to defendant where plaintiff had appropriated the name "Rams" for his fictional sports team). The defendant argues that this analysis only applies to exclusive uses of a term to designate the product and does not apply to descriptive terms. She cites *Coca-Cola Co. v. Busch*, 44 F. Supp. 405, 409 (E.D. Pa. 1942) in support of her position, but that case says nothing about excluding

descriptive terms. As to exclusive use, the court cited two cases in which the plaintiff had never applied the claimed nickname to its goods but the defendant competitor had. *Id.* The opposite is true here: Ty applied the "beanie" mark to its goods, shipping boxes, and in newsletters. Moreover, the Seventh Circuit does not identify the elements defendant urges, nor does Jerome Gilson do so in his treatise, *Trademark Protection and Practice*, § 2.06.

We find, therefore, based on the evidence of Ty's use of the word "beanie(s)" beginning in 1995 and the extensive evidence that the term had become a nickname for BEANIE BABIES before 1998, that Ty has met its burden of showing that it has a protectable interest in the "beanie(s)" mark. There is no genuine issue.

2. *Likelihood of Confusion*

The next question is whether Ty has established a likelihood of confusion between the term "beanies" and the defendant's use of Bargain Beanies or Bargainbeanies.com.[11] The analysis of this issue is substantially identical to that already undertaken.

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11. The parties agree that Ty's state law claims for deceptive trade practices should be analyzed under the likelihood of confusion standard, as well. *See TMT North Am., Inc. v. Magic Touch GmbH*, 124 F.3d 876, 881 (7th Cir. 1997) (discussing only the Lanham Act although the case also raised state law claims because " 'federal and state laws regarding trademarks and related claims of unfair competition are substantially congruent' " and neither party had suggested that state law presents distinct considerations).

Summary judgment in favor of either party on Count II would be inappropriate. *See supra* I.A.

II. *Trademark Dilution*

The Federal Trademark Dilution Act, 15 U.S.C. § 1125(c)(1) provides that:

> The owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark, and to obtain such other relief as is provided in this subsection.

In order to prove trademark dilution, Ty must establish that: (1) its logo and trade name are famous trademarks; (2) Perryman's use began after the marks had become famous; (3) Perryman's use "causes dilution" of the trademarks; and (4) Perryman's use is commercial and in commerce. *Trans Union LLC*, __ F. Supp.2d __, 2001 WL 303688, (citing *Eli Lilly*, 233 F.3d at 466).

The defendant disputes that Ty's trademarks were famous by the time she began her business, but offers almost no support for her position. As we have noted throughout, Ty's BEANIE BABIES and "Beanie(s)" marks attained extraordinary success in the market by December of 1997. Numerous newspapers from all over the country ran articles

about consumers' frenzy to collect the toys in 1996 and 1997. *See* Pl.'s Exs. 11, 19, 55-57, 63 & 65. We have no trouble finding that the plaintiff's mark was famous in December of 1997. The parties do not dispute that the defendant used the "Beanies" mark in commerce.

The only real issue, then, is whether the defendant's web site dilutes Ty's trademarks. *See Trans Union LLC*, 2001 WL 303688 (discussing dilution in the context of Internet use).

> Dilution "means the lessening of the capacity of a famous mark to identify and distinguish goods or services, *regardless of the presence or absence of" competition between the parties or likelihood of confusion among consumers.* 15 U.S.C. § 1127. Dilution occurs in cyberspace when defendant's use "lessens the capacity of [plaintiff] to identify and distinguish its goods and services by means of the Internet." *Intermatic [Inc. v. Toeppen,]* 947 F. Supp. [1227] at 1240 [N.D. Ill. 1996]; *see Panavision International, L.P. v. Toeppen*, 141 F.3d 1316, 1326 (9th Cir. 1998). A showing of actual economic harm is not required to establish dilution in this circuit. *Eli Lilly*, 233 F.3d at 468. Instead, [the plaintiff] need only demonstrate a likelihood of dilution based on the renown of its trademarks and the similarity between those marks and the allegedly diluting uses of defendant[ ]. *Id.* at 468-69.

Id. (emphasis added).

Appendix C

To the extent the plaintiff claims dilution of its BEANIE BABIES mark, we agree with the defendant that there is a genuine factual question as to whether that mark is sufficiently similar to "bargainbeanies.com." *See infra* I.A.1. The defendant does not make the same argument regarding the "beanies" mark, but rather reverts to her position that "beanies" is a generic term not entitled to trademark status. Def.'s Memo. at 15; Def's Reply at 14. We disagree, *see infra* I.B., and in view of defendant's apparent concession on this issue, find that the two are similar.

As to dilution, the plaintiff argues that the defendants' use of the term "beanies" on her bargainbeanies.com web site will cause Ty to become associated with "an unimaginable variety of products of varying quality (including competing products)." Indeed, Perryman does sell third party toys on her web site, but she argues that Ty is not protected by the trademark laws from having its products sold side-by-side with third party brands. That may be, but Perryman admits that she referred to third party toys as "beanies" on her web site. Pl.'s Facts, ¶ 57; Pl.'s ex. 107. The particular page at issue identifies Ty's toys, but in another category labeled "other beanies," lists a number of third party toys. This clearly lessens the capacity of the plaintiff to distinguish its goods from competitors. *See* 15 U.S.C. § 1127.

Ty has met its burden of showing that the defendant's use of the term "beanies" dilutes its protectable marks. Therefore, because there is no genuine dispute, we grant summary judgment in favor of Ty on Count III, and deny the defendant's motion for summary judgment on Count III.

Appendix C

III. *Defendant's Motions to Exclude Evidence*

The defendant has moved to exclude plaintiff's exhibits 55-57, and 100 on the grounds that they constitute impermissible hearsay. The motion is denied as moot inasmuch as the court did not consider exhibit 100 for other reasons, and only considered the newspaper articles to the extent the hearsay rules permit.

The defendant also moves to exclude plaintiff's exhibit 45 under Federal Rule of Civil Procedure 37(c). The defendant argues that during discovery she requested that Ty provide yearly dollar and unit volume sales for certain products, including BEANIE BABIES. On July 10, 2000, Ty responded that it does not record its sales records in a manner that would allow it to obtain or provide this information. On March 30, 2001, the day Ty filed it's cross-motion for summary judgment, the plaintiff delivered a copy of exhibit 45 to the defendant, which is a chart reflecting sales of *selected* models of BEANIE BABIES per month. In particular, the chart included all six BEANIE BABIES which had the mark "Beanie" on the poem of their swing tags, but does not provide all of the information the defendant requested in her interrogatory.

When the parties appeared before the court, plaintiff's counsel explained that the evidence was turned over two days after Ty found it. The exhibit was apparently transmitted by facsimile, and the date March 28, 2001 appears on the document. Although the circumstances are a bit puzzling, the defendant has offered no concrete reason to disbelieve counsel's representations to the court.

Appendix C

CONCLUSION

For the reasons stated above, we deny the defendant's motion for summary judgment. We deny the plaintiff's motion for summary judgment as to Counts I, II, and IV, but grant the motion as to Count III (trademark dilution). We deny the defendant's motions to exclude exhibits 45, 55 through 57, and 100.

DATE: July 17, 2001

ENTER: s/ John F. Grady
John F. Grady, United States District Judge

APPENDIX D — RELEVANT STATUTES

15 U.S.C. § 1125(c)

(c) Remedies for dilution of famous marks

(1) The owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark, and to obtain such other relief as is provided in this subsection. In determining whether a mark is distinctive and famous, a court may consider factors such as, but not limited to—

(A) the degree of inherent or acquired distinctiveness of the mark;

(B) the duration and extent of use of the mark in connection with the goods or services with which the mark is used;

(C) the duration and extent of advertising and publicity of the mark;

(D) the geographical extent of the trading area in which the mark is used;

(E) the channels of trade for the goods or services with which the mark is used;

(F) the degree of recognition of the mark in the trading areas and channels of trade used by the marks' owner and the person against whom the injunction is sought;

(G) the nature and extent of use of the same or similar marks by third parties; and

(H) whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register.

(2) In an action brought under this subsection, the owner of the famous mark shall be entitled only to injunctive relief as set forth in section 1116 of this title unless the person against whom the injunction is sought willfully intended to trade on the owner's reputation or to cause dilution of the famous mark. If such willful intent is proven, the owner of the famous mark shall also be entitled to the remedies set forth in sections 1117(a) and 1118 of this title, subject to the discretion of the court and the principles of equity.

(3) The ownership by a person of a valid registration under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register shall be a complete bar to an action against that person, with respect to that mark, that is

brought by another person under the common law or a statute of a State and that seeks to prevent dilution of the distinctiveness of a mark, label, or form of advertisement.

(4) The following shall not be actionable under this section:

(A) Fair use of a famous mark by another person in comparative commercial advertising or promotion to identify the competing goods or services of the owner of the famous mark.

(B) Noncommercial use of a mark.

(C) All forms of news reporting and news commentary.

Appendix D

15 U.S.C. § 1127

The term "dilution" means the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of—

(1) competition between the owner of the famous mark and other parties, or

(2) likelihood of confusion, mistake, or deception.